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With The Editors

To Whom It May Concern

BOTH the Stock Exchange and the S E C have their hands full nowadays, with changes and new developments of all kinds coming up for consideration. Perhaps it would seem like ingratitude for the progress already made, to shout for more without delay. Lowering our voice to a murmur, therefore, we suggest several lines of thought well worth following by either body.

1. Listing agreements provide for annual reports to stockholders a certain length of time before the annual meeting, but as this works out both the meeting and the report may be postponed indefinitely. We have in mind a situation like Loew's, Inc., reporting year after year in November for the fiscal year ending August 31st. The report for 1937 was delayed until late in December, but as this is written there is no indication as to when Loew's stockholders are going to be informed, even during the second quarter of the fiscal year, on results of the year to August, 1938. While there may be good reasons for delay in this case—numerous law suits may be one of them—something should be done to shorten the period in which important information is known only to a select class of stockholders. This applies to quarterly reports as well.

2. Among the points on which interested parties are insufficiently informed is that of foreign assets and earnings. The suggestion is outlined in more detail in the "Stockholder's Guide" on p. 374; it boils down to the need for a reasonably good idea of the proportionate risk an investor runs when revolution, war, confiscation or whatnot threatens his company in a particular quarter of the globe.

3. The present rule on short selling is an impediment to many legitimate functions, yet it permits one inequity to continue. Why should it be known on the floor that certain trades are for short account, but that knowledge be denied the public? Label the short sales on the tape, through the use of the letter S after their price as suggested here last June 18th, and go back to the former prohibition against short selling at a price lower than the previous sale.

4. Finally, a suggestion on the bothersome problems raised by the McKesson & Robbins case. If all listed companies were required to bond their officers and their assets, to insure against any and every loss of this type, stockholders would receive complete protection. Yet the cost would be less than for any adequate independent check on inventories and such at each accounting period for each listed corporation.

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* * * IN THE NEXT ISSUE * * *

Annual Dividend Forecast for 1939

Part I—Issue of January 28

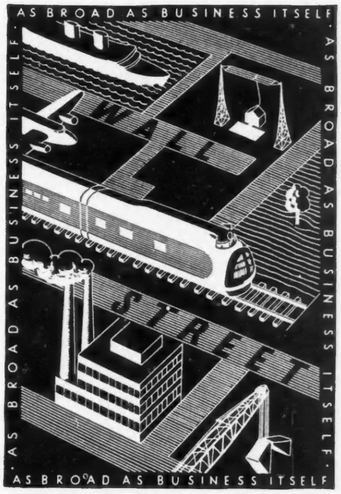
Oils, Steel, Metals, Public Utilities, Electrical, Agricultural, Machine, Railroad and Business Equipment

Drawing of proposed Stratoliner by F. S. Clemmer for Boeing

"The aircraft manufacturing industry can turn out twice its present production without adding any factory space." **See page 366.**

THE MAGAZINE OF WALL STREET

E. KENNETH BURGER, *Managing Editor* : C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Associate Editor*



The Trend of Events

CONCILIATION AND RECOVERY . . . In politics the times make the man. As regards both foreign and domestic policies, the President's annual message to Congress was geared fairly closely to the pulse of prevailing public opinion in this country.

Our people abhor everything that the dictatorships stand for. The President eloquently expressed their repugnance and his. Our people are determined to meet any threat of physical attack with adequate military and naval defenses. This determination the President also put into eloquent words.

Our people showed in the November election that they are weary of political and social crusades, of innovation and experimentation, of class bitterness and internal dissention. They showed a yearning for consolidation and rationalization of the New Deal, for conciliation, for relegating reform to the background and getting on with the business of economic recovery. These general sentiments the President tacitly accepted as his own.

As in other messages on the state of the nation made in preceding years, Mr. Roosevelt was on weakest ground in his attempt to defend his fiscal policy. And while the broad outline of his foreign policy will be approved, its particulars must, of course, come in for careful scrutiny in Congress. This applies not only to the essentially technical problem of strengthening our armaments, but much more so to the non-military methods of defending democratic ideals that Mr. Roosevelt spoke of in consciously guarded words. There is evidence that the President leans farther toward international cooperation for defense of democracy than does Congress or present public opinion. It was a similar leaning that lead President Wilson to defeat. Protecting *our* democracy is one thing. Use of even economic and diplomatic weapons against the dictatorships in aid of foreign democracies is something else again. Our participation in the World War *began* on the economic and diplomatic front. Congress is well aware of that fact.

DEFENSE OF STERLING . . . The British financial authorities have taken decisive action to stem the persistent decline of the pound sterling by a record-breaking transfer of gold from the Bank of England to the Stabilization Fund. Figured in dollars, the amount of gold involved is about $1,650,000,000. Due to previous large losses of gold, the transfer leaves the Stabilization Fund at well under $2,000,000,000, and it also resulted in substantial dilution of the gold reserve back of the Bank of England note issue. In previous weeks the authorities had imposed an unofficial embargo upon foreign loans and unofficial restrictions upon loans against gold and speculative short selling of sterling.

Fundamentally, the causes of pressure on sterling are political and economic. Technical control measures do not remove those causes, although there is no doubt

that the present defense will prove effective for at least some time to come. If the basic trouble is not ultimately cured, there will remain the final undesired step of rigid, official exchange control as practiced in the dictatorships.

MORE SPENDING . . . The President's budget message relegates to a dim and conjectural future any thought of bringing the Government's expenditures into balance with income. It contains just two gestures toward fiscal sanity, both very mild. First, he hopes that the deficit for the year beginning July 1 will be only $3,326,000,000 against $3,972,000,000 for the present fiscal year, but this depends on a further business recovery which will permit substantial reduction of W P A rolls. Second, he suggests that Congress find $500,000,000 in new taxes which will "avoid repressive effects on purchasing power." but even if such taxes are levied the amount would be only some 15 per cent of the estimated deficit.

Mr. Roosevelt observes that restoration of the $80,000,000,000 national income of 1929 would yield $8,000,000,000 of Federal revenues, presumably enough to balance the budget, if the Government's ventures in social services are not meanwhile increased and if relief spending is virtually ended; and that a $90,000,000,000 national income would produce enough revenue to permit a beginning of debt reduction! We see very few crumbs of comfort in these long range conjectures. Moreover, if we had an $80,000,000,000 national income right now, the income less Federal taxes would be $72,000,000,000 against a 1929 income, similarly computed, of about $76,000,000,000; and since the population has increased it would be only $554 per capita against $623 per capita in 1929 or a deficiency of more than 11 per cent.

Government spending is really "investment," says Mr. Roosevelt. Investment is essential to recovery and the debt is nothing to worry about because total debt, public and private, is no greater than in 1929. This leaves us confused. In the first place, we thought everything about 1929, including its indebtedness, was all wrong. In the second place, if we have the debt of 1929 why have we not the prosperity of 1929? The self-evident answer is that Government "investment" is far less productive of national income than private investment.

While the danger point is not in sight we shall have to have an end of this fiscal unorthodoxy some day. The sooner a rational start is made the better off we will be. The way to do it is to give private investment all possible encouragement, coincident with a planned and orderly tapering off of Federal deficit spending. This kind of economic planning and credit management would not produce a depression.

BUILDING AND BUSINESS . . . It is probable that we are in a long cycle of recovery in construction which will gradually eliminate one of the chief sore spots of unemployment and heavy-industry depression. More important than conjectural long-term potentialities, however, is the assured fact that revival in building will necessarily make a major contribution to economic activity at least through 1939 and well into 1940. The reason for this is the considerable time lag, especially in larger projects, between contract awards and the actual work of construction. Thus the building statistics of any one month relate to employment of labor and purchase of materials that will be spread over the next three to twelve months and should be so interpreted.

The sharply rising total of awards during the second half of last year, and particularly during the final quarter, will be translated into business activity throughout this year. All experts agree awards will rise further at least during the first half of this year. That will mean business stimulation for the second half of the year and into 1940.

Building awards in 1938 showed the fifth consecutive yearly rise, thanks to increased public works which constituted 52 per cent of the total. It is nevertheless highly significant that private awards declined only 16 per cent from 1937 or much less than the year's shrinkage in aggregate output of durable goods. The limited scope of this reaction attested to the vitality of the major cycle of building expansion now in progress, quite apart from Federal pump-priming.

FARM PURCHASING POWER . . . Cash farm income last year is estimated at $7,625,000,000, or a decline of only 11 per cent from the 1937 level and less than 4 per cent under the 1936 figure. With allowance for lower prices of goods bought by farmers, shrinkage in farm purchasing power was even less than the income figures imply. On the whole, and in contrast with political agitation for more and better farm relief, the farmers came through the recent depression with less grief than many other segments of our population. The prospect this year is for at least a moderate betterment of farm income, with farm buying power likely to exceed that of 1936 by a slight margin, but remaining somewhat below 1937.

Considering the permanent shrinkage of export markets and a long run trend toward lower prices of raw materials—reflecting increased and more efficient sources of production throughout the world—the relative stability of farm income in recent years has been rather notable. At any rate the 1938 decline of 11 per cent contrasts strikingly with successive declines of 20, 30 and 26 per cent in 1930, 1931 and 1932, respectively. On the other side of the picture, Government payments now make up about 7 per cent of farm income; and ultimate liquidation of farm surpluses now artificially held off the markets is a factor of future price uncertainty of the first rank.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 352. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue. Monday, January 9, 1939.

As I See It!

BY CHARLES BENEDICT

OUR OBJECTIVE IS TO WIN

To win, we must plan properly, but with a flexibility that will enable us to take the right kind of action at the proper time. We cannot have pet theories or permit personalities, stubbornness or selfish interests to affect our judgment in these critical times. No one can expect one hundred per cent realization because there are too many conflicting interests among men to make such a thing possible. But we can compromise—and through compromise work out a rather perfect thing, so far as human nature will permit.

It is evident that our law making bodies are girding for action, and I hope that the strong opposition which was elected this fall will use their opportunity with wisdom—for balance, and not for the purpose merely of throwing a monkey wrench into the present governmental machinery.

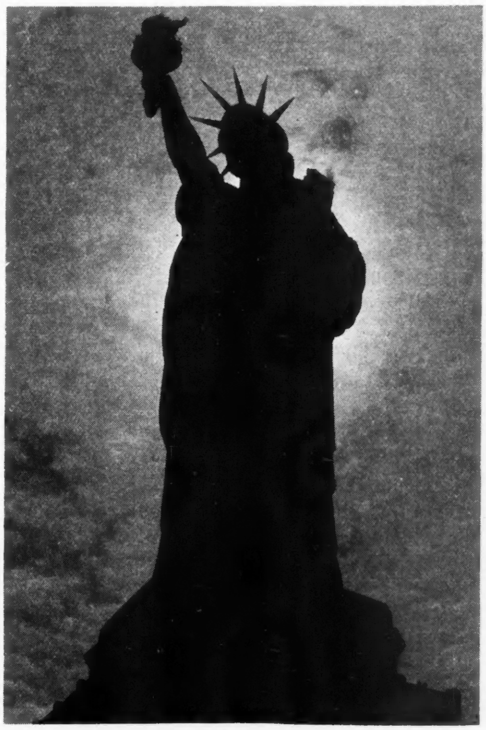
The stock market, which represents the convictions of those in the "know," rose in high hope after the President's speech; declined the next day after the budget message, and on the third day remained quietly waiting, with uncertainty, for events to shape themselves before taking action. What will the new Congress do?—is in the mind of every thoughtful business man. Congress alone will be responsible for business hesitation, should our law makers prefer to play politics.

The reaction from abroad on the President's message was extremely interesting. The English and French were jubilant not because they expect specific cooperation and assistance from the United States; but because of the psychological effect of our attitude on their enemies with whom they are bargaining at the moment.

The Germans were bewildered and fearful. They had hoped to influence opinion in our country in their favor by the pressure they have been putting on American companies having plants in Germany with investments running somewhere over two billion dollars. Apparently, the action suggested by the President is the one thing they fear. Japan has been much more frank. She sees the United States as a big barrier to the "new order" which together with Germany and Italy they envisage as their future world. It was a blow at their barter system by which they expect to throttle the rest of the nations and collect tribute.

It is this barter system—this new type of economy, yet as old as the hills—that we have to beat. Consider the competition from slave labor in Japan, living on a handful of rice, to the 14 to 16 hour working day in Nazi Germany with its high level of industrial mechanization.

The repercussions on our economy, on the status of our labor, are of first importance to every citizen. And we are feeling its dire effects too close to home to be comfortable. It glared at us in Lima where our delegates were received in a city bedecked with Nazi flags—in the opposition from the Argentine, Brazil and Peru—in the renewal of barter agreements in Uruguay and Mexico after the conference.



Nesmith, Photo by J. U. D. Bucher

We are actually at war—but a new kind of war—more insidious, and which can be more devastating to every American than the military battles with which we are familiar.

We have built up an economy for a whole people which is the envy of the world. Actually, it is the American type of economy which these Dictators started out to acquire. Until they made such strides in South America, the conquest of the United States was to them merely a wild dream. Now they conceive it as a possibility—but only if we do not unite; if we permit dissension, strife, and enemies from within to undermine us. There are those erstwhile Ameri-

(Please turn to page 403)

The Wisest Market Policy Now

Recent reaction merely extends a trading range now some months old. Basic financial-economic factors remain favorable. We are bullish on intermediate and long-pull trends and recommend selective purchases in periods of recession.

BY A. T. MILLER

REACTION last week put the industrial average back to the approximate level of a fortnight ago, while the better resistance of secondary issues enabled our weekly index of 330 issues to show a net gain of 3.2 points, or 4.8 per cent, for the two weeks' period. Although investment demand is cautious, there has been enough of it, even in reaction, to lift a fair sprinkling of stocks to new recovery highs, and anything like a general liquidating urge is, in our opinion, out of the picture.

Checking back to the November-December lows, the general run of stocks have maintained a modest upward slant for five or six weeks and recession under way at this writing could go a bit further without breaking this line of ascent. No doubt the frequency of technical corrections has disappointed many, but there is much to be said for a pay-the-technical-bill-as-we-go performance for it does conserve technical strength that will come in handy one of these days.

Of course, nothing in the recent minor price fluctuations has changed the broader technical picture. It has been a trading range market for many months and remains such. The position of the broad 330 index now is a trifle under the high of last July, with the daily industrial index only a fraction above the best July level.

We have no firm conviction as to the speculative prospects of the next several weeks. We *are* convinced that the general position is not seriously vulnerable, that economic and credit factors are continuing to build up support for stock values and that what we are going through is a normal period of transition from the excited gyrations characteristic of the first phase of a bull market to an orderly second phase in which prices will gradually mesh with improving corporate earnings. In relation to investment and intermediate term trading policy, it will be nothing to worry about if this transitional trading range extends itself for a few more weeks or a few more months.

Probably the chief reason for current speculative disappointment is the fact that the market has thus far double-crossed seasonal expectancy of early January advance, resting on the precedent set by a majority of past years. If seasonal habits were infallible, the game would be absurdly easy. Moreover, no estimate of seasonal tendencies makes sense unless it is conditioned by the prevailing circumstances. What the market may be expected to do in any given period often depends mainly on what it has done in the immediate preceding period. Thus, in years of sharp January-February rally, the movement has usually taken off from a technical springboard that had been prepared by proportionately sharp autumn reaction. Similarly, under favorable or stabilized financial-economic conditions such as now exist, the typical spring reaction has usually come because optimistic January-February rally had set the technical stage for it.

Although the November-December short-swing reaction presented a favorable opportunity for investment and intermediate trading purchases—as does the present reaction—it set up no such technical dynamite as existed prior to the June-July run-up or the fast September-October spurt following a full intermediate correction and the termination of the war scare in the Munich accord. Examined from this perspective, we do not consider the recent performance frightening. Neither will despair be in order in the not impossible event that disappointed selling causes additional reaction at a time when most minds had been attuned to seasonal advance.

Indeed, substitution of short-swing reaction and irregularity at this point for the January-February rise called for by precedent should greatly improve our chances not only of getting through the spring without serious relapse but also of possibly enjoying the rather unusual phenomenon of important spring advance. Regardless of preponderance of precedent to the contrary, that *can* happen. We saw it happen in 1935 when the first ten weeks of the year brought a decline of 7 points in the industrial index—followed by a 65-point advance which began in March and avoided important reaction for thirteen months.

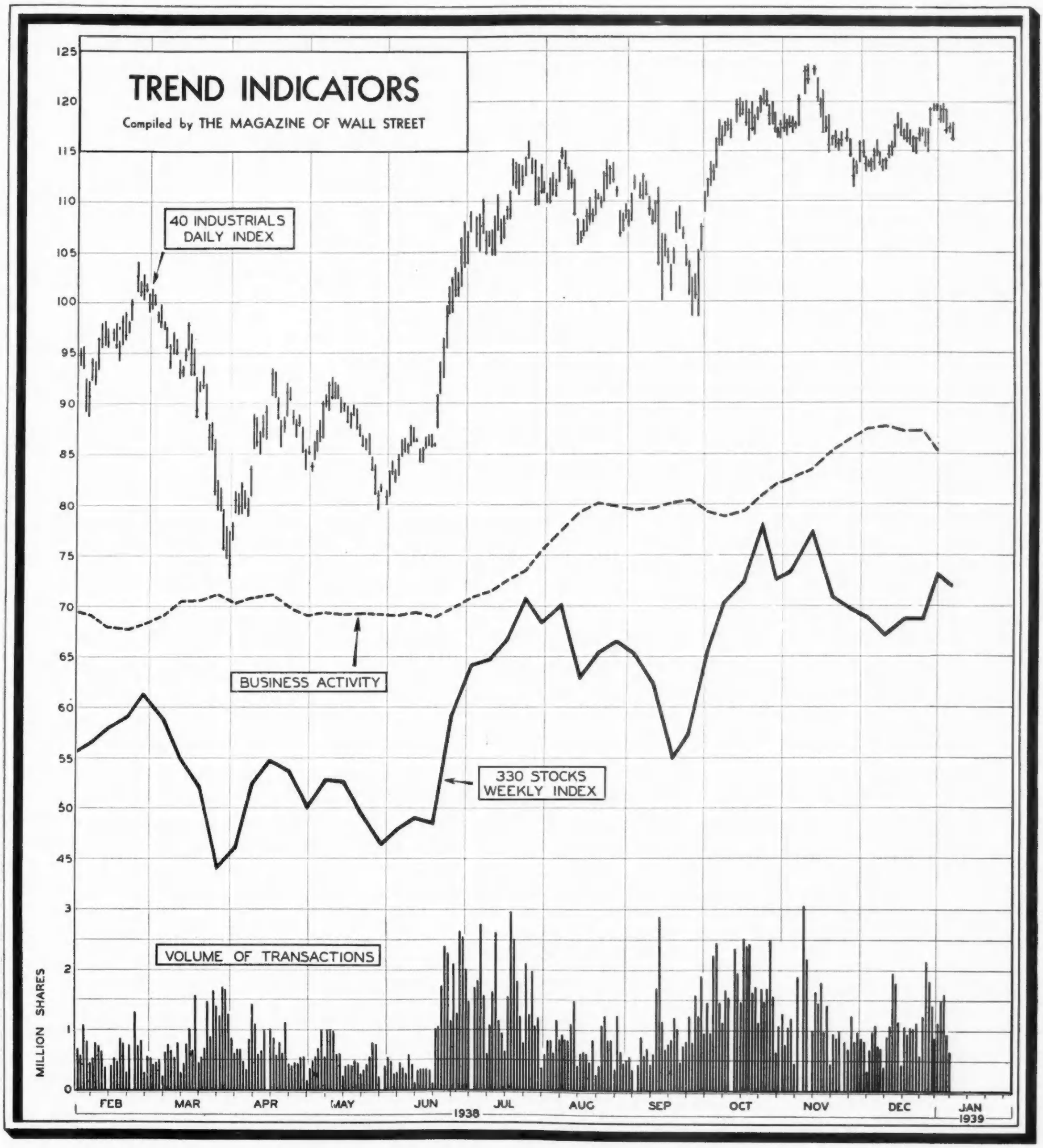
We know that many people are genuinely disturbed by the threat of possible European war. We know that

many people are skeptical as to spring business. We share neither the war fear nor the business skepticism.

Regarding the war factor, we reason that in the Munich accord and thereafter the essential fact is that Great Britain and France have given Germany a free hand in eastern Europe. We reason further that if Britain and France would not go to war to preserve Czechoslovakia, it is most improbable that they will go to war to preserve Poland, or Roumania or Russia's Ukraine. We do not believe that the Italian-French squabble will result in war. Therefore, at worst—and we think even this slightly improbable—we can see possibility of localized eastern European war. It would produce a temporary shock far less startling than the war scare, affecting Britain and France, which evaporated at Munich last September.

Regarding the business outlook, the political trend is to the Left in Government finance and credit policy but to the Right in all other respects. We do not see how further business gains can fail to come out of this combination, regardless of its basic soundness. Following the present pause, only a modest business rise will be required to establish a favorable level and trend of company earnings.

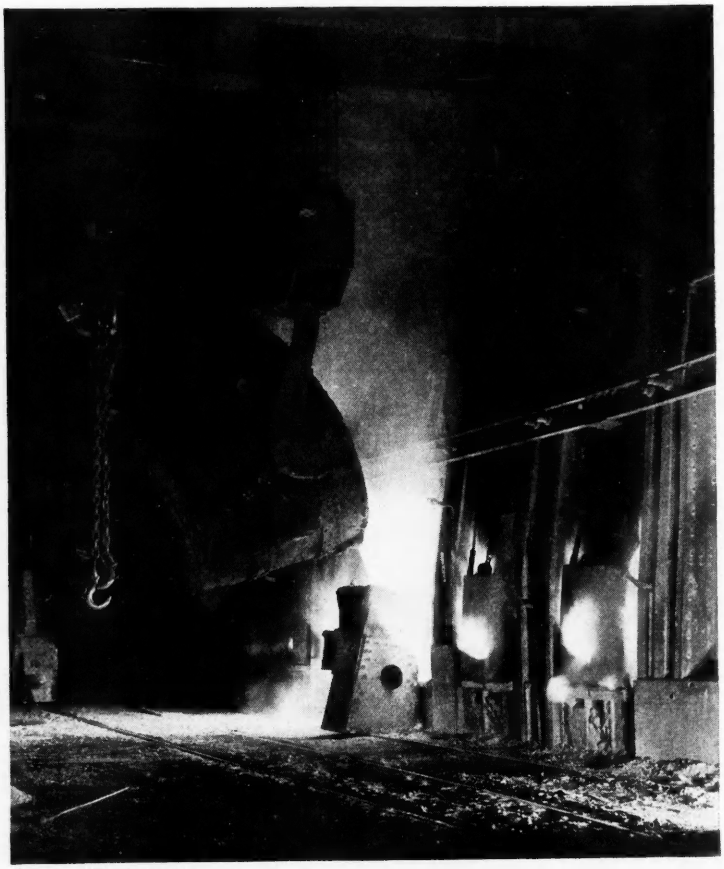
The "spring reaction" that so many fear may be here now and may go further, extending the opportunity to buy good stocks for intermediate and longer range holding. Monday, January 9, 1939.



The Next Business Boom

When Capital Goes Back to Work, So Will Men and Machines

BY WARD GATES



Courtesy Inland Steel Co.

"WE'RE on our way," said President Roosevelt. That was several years ago. The President thought we were moving toward increased and more stable economic activity. His optimism was premature, to say the least.

Now we have emerged from a short but severe depression—the third we have seen in the single generation since 1919—and once more we are "on our way" in another major cycle of recovery. But just *where* are we going?

There was a time, now some years behind us, when such a question would not have been asked. In those days we took it for granted that after completion of the forced economic adjustments of depression it was America's destiny to resume the long term advance in material well-being. Each upswing of the major business cycle took us to new peaks in the production of goods and services, in the national income and in the living standard of the average individual.

But since 1929, nearly a decade, our economic movement has been something like a man jumping up and down on a treadmill. There have been wide fluctuations but no net progress. Before we can even dream of pushing ahead to a new high in business activity we have yet to recapture the position that we held in the middle 'Twenties some fifteen years ago.

Looking back at the disappointing record of recent years, it is not surprising that thoughtful people view our present renewed upturn with certain reservations. Is it just another shot in the arm with the same old dope of Government money? Is it just another temporary build-up for another let-down before long? Or are we working back toward the main road—from which we have so long been detoured—and really getting ready to go places?

Well, if we are to arrive at a sane opinion as to *where* we are going on the present journey the first necessity is to determine where we *are*. The point is important because there is strong circumstantial evidence that those who have served us as official guides since March, 1933, don't know where we are.

What is the central theme of the New Deal "planning" and credit management which have played so dynamic a role in the economic fluctuations of the past six years? Briefly, it is this:—The prime requirement is to get purchasing power into the hands of consumers; and since private investment is at a low ebb it must be supplemented by heavy Government spending which also serves the purpose of inflating bank deposits.

To the Washington mind "inadequate consumer purchasing power" seemed to be one of the chief causes of the great 1929-1932 depression. Similarly, it was held that the 1937-1938 depression came upon us because the prices set by business for its goods outran consumer purchasing power. It is not to be wondered at that the planned recovery of 1933-1937 was largely a consumer

goods recovery. Thus far the present recovery is also mainly a consumer goods recovery.

It is quite simple to explode the purchasing power theory by examination of the facts. Prof. Willford I. King has done more research on the distribution of income than anyone else and is a recognized authority in this field. Dr. King's investigations show conclusively that in the years just before the crash of 1929 the proportion of industry's entire realized income going to employees in wages and salaries was materially higher than it had been during the pre-war years. If the purchasing power theorists had been correct, Dr. King concludes, this increase in the percentage of the national income going to employees "ought to have made the decline in industry impossible; instead, it precipitated the worst depression on record."

More recent purchasing power statistics point to an identical conclusion. For instance, total wages and salaries in 1937, as estimated by the Department of Commerce, were 88.5 per cent of the 1929 level. Allowing for a 1937 cost of living some 15 per cent less than in 1929, the purchasing power of the 1937 employee income was 2 or 3 per cent greater than in 1929. But per capita business activity was not greater than in 1929. It was, in fact, nearly 13 per cent less than in 1929.

For last November, latest figure available, income of employees was 85 per cent of the 1929 level. Due to lower living cost, purchasing power of employees in that month equalled that of 1929—but November business activity per capita was nearly 24 per cent less than the 1929 average.

Again, total consumer expenditures for the month of July, 1937, were estimated at 105 per cent of the 1923-1925 level, while for the same month this publication's business index averaged only 97.5 per cent of the 1923-1925 level.

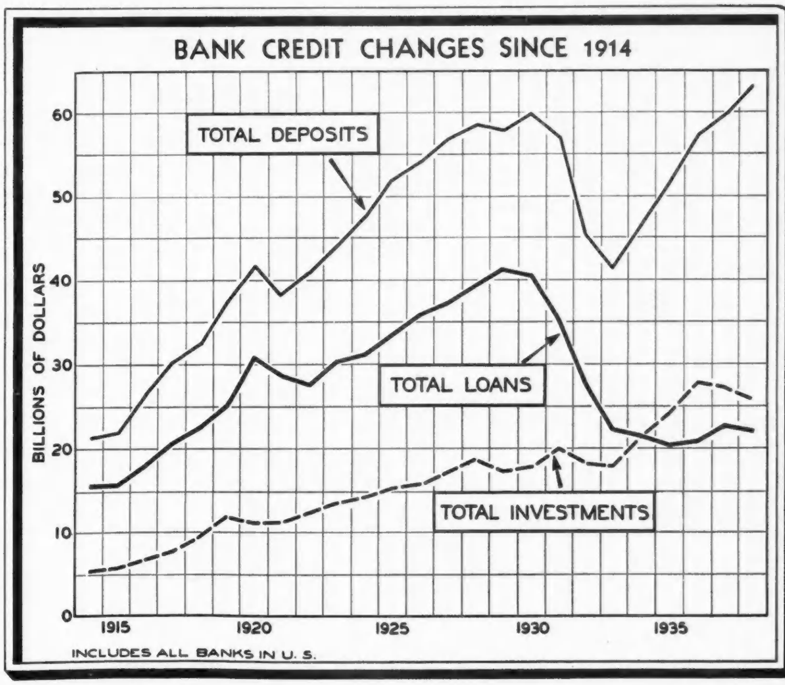
The significant economic reality behind these statistics is this: In the recovery period which terminated in 1937 we attained a new high in purchasing power of wage and salary workers and in the demand for consumer goods but we fell substantially short of attaining a new high in total production, in employment and in national income because of a continuing great deficiency in the output of those types of durable goods for which long-term private investment is the foundation.

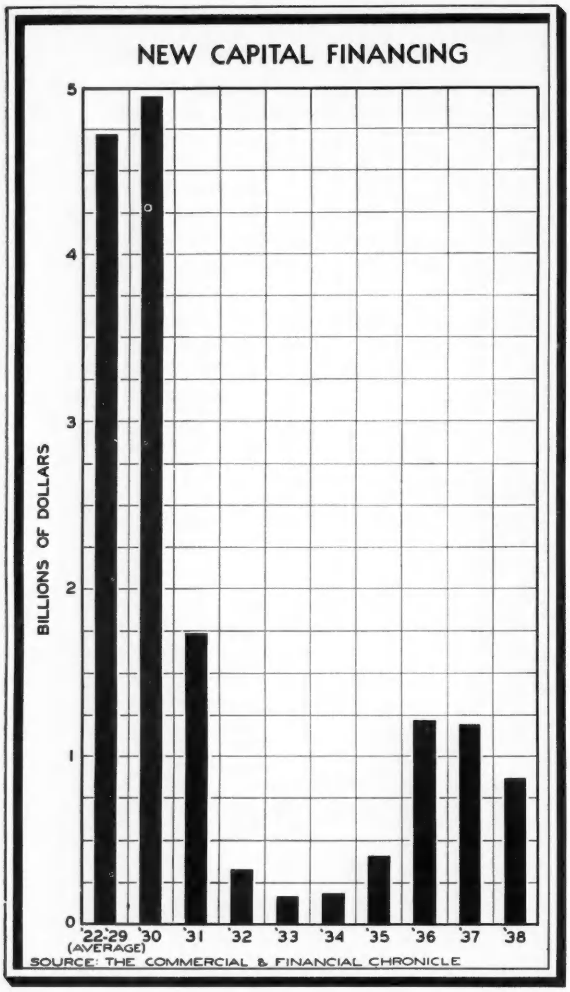
In short, subnormal private investment in capital goods—the tools of our economic system—and in construction was, and is, the seat of the primary economic illness which has afflicted us ever since 1929.

This statement is not a new contribution to economic knowledge. The vast majority of economists have long recognized the general nature of the trouble and the problem it presents. But we are indebted to the National Bureau of Economic Research for comprehensive statistics which throw a more revealing light on it than ever before. This data shows that total expenditures for producers' durable goods and for private construction averaged $13,265,000,000 a year for the 1923-1925 period and $14,573,000,000 for the years 1926-1929. Contrary to popular impression, such spending—which meant long-term investment—was fairly stable under anything except depression conditions. For instance, the 1929 total of $14,499,000,000 compared with average of $14,052,000,000 for the years 1925-1926 and with average of $13,600,000,000 for the years 1919-1920. But the corresponding average for the recovery period 1933-1935 was only some $5,000,000,000. Thus, the deficiency, as compared with the 'Twenties, was some $9,000,000,000 a year in private investment in capital goods and construction. Temporary improvement in such investment in 1936 and 1937—for which complete statistics are as yet unavailable—did not substantially change the picture, as is suggested by the fact that total corporate new capital financing for 1936-1937 averaged only $1,206,000,000 a year, against average of $3,375,000,000 for 1923-1925 and average of $6,117,000,000 a year for the period 1926-1929.

Now what does all of this mean? It means that since 1933 the Roosevelt Government has spent an average of $2,944,000,000 of borrowed funds a year, with chief stimulus to consumer goods, in a thus far vain effort to prime the private investment pump. It means that the private investment needed—for which an abundance of private money is available and waiting—is many times the amount of money that Mr. Roosevelt has spent for economic stimulation or can ever spend. It means that for a cumulative total of nearly $20,000,000,000 of Government pump-priming since the summer of 1933 we have had one temporary recovery centering mainly in consumer goods and we are now launched on another recovery which thus far is also mainly in consumer goods.

Today we have truly remarkable *potentialities* for a





long period of great prosperity. We have had nearly a decade of generally lean times—nearly a decade of under-building, of under-expansion, of under-maintenance; nearly a decade of accumulating obsolescence both in the structures within which we live and work and in the tools of production; nearly a decade of psychological inhibitions and frustrations; nearly a decade of repression of the normal American spirit of venture for gain. On the demand side we need an investment of many billions in construction and additional billions for the modernization, or expansion, of industrial, railroad and utility facilities. On the supply side we have abundance of raw materials, intelligent labor, technical knowledge; more idle cash in the commercial banks than ever before, and a record high total of private savings.

It should be quite obvious that under our profit system capital must first go to work before men and machines can be employed in adequate production of the types of goods in which there exists both the greatest deficiency and the greatest potentiality for economic progress.

There are two kinds of cash capital: (1) demand deposits in the banks, which represent "working cash"; (2) savings in the custody of banks, insurance companies and other institutions. Present demand deposits are capable of financing a volume of current business transactions far greater than in 1929, not only because of the dollar amount of such deposits but also because of a price level well under that of 1929. But, as indicated by total check transactions, this "working cash" is doing about 40 per cent less "work" than demand deposits were doing in 1929. While total savings funds in all banks are estimated to be about 8 per cent less than the $24,029,000,000 figure of 1929, the aggregate of savings in every form is substantially greater than in 1929. Bearing upon the latter point, it may be noted that security and real estate mortgage investments of the life insurance companies are some 51 per cent larger than the 1929 total of $12,727,000,000.

It is a curious fact that the Government's borrowing and spending in recent years to finance its "war against depression" has tended to create a redundant money supply—both as to demand deposits and savings—in much the same fashion as did the Government's borrowing and spending in 1917-1918 to finance the "war to save Democracy." In the four years 1917-1920 total bank deposits increased by more than 30 per cent, total bank loans by more than 60 per cent, total bank investments by nearly 60 per cent. We came out of the World War, and the post-war depression of 1920-1921, with a tremendous supply of "working cash" and savings cash. This money supply was not only put to active work in producing the 1923-1929 prosperity but was further enlarged by a private credit expansion which much more than offset the credit deflation resulting from persistent retirement of the Government debt.

It would be still more curious if waning business and investment fear of the New Deal should result one of these days in confidently active spending and investment of the money supply which New Deal policies have so greatly expanded. That *can* happen. Just when we do not know. We may be on the verge of it now or it may lie a year or more ahead. The answer depends on many complex and overlapping factors affecting the confidence of potential lenders, potential borrowers, potential investors of equity capital. Confidence in what? Confidence in the reasonable long-term security of capital, not as regards (*Please turn to page* 396)

The Trend of Savings

	In All Banks	Assets of Life Insurance Companies
1927	$26,032,000,000	$14,392,000,000
1928	28,132,000,000	15,961,000,000
1929	24,029,000,000	17,482,000,000
1930	24,114,000,000	18,880,000,000
1931	23,664,000,000	20,160,000,000
1932	20,565,000,000	20,754,000,000
1933	17,836,000,000	20,896,000,000
1934	19,083,000,000	21,844,000,000
1935	20,072,000,000	23,216,000,000
1936	21,107,000,000	24,874,000,000
1937	22,181,000,000	25,604,000,000
1938	*23,000,000,000	*26,400,000,000

* Estimated.

Ten Market Leaders

Stocks Which Should Make the Greatest Percentage Gains

Selected by THE MAGAZINE OF WALL STREET STAFF

We present herewith and briefly analyze a group of common stocks which in our opinion should lead the market of 1939 from the standpoint of percentage price appreciation.

The issues have been chosen with particular reference to industrial prospects and more weight has been given to the possibilities of earnings improvement than to the earnings record during the twelve months just closed.

The group as a whole represents a stake in those industries most likely to enjoy the maximum of profitable activity in 1939. Prospects vary, however, and a moderate commitment in each stock is preferable to a large holding in any one issue.

While we believe the major trend of the market is upward, we do not counsel immediate purchase of these stocks. Political uncertainties and war scares may temporarily produce somewhat more favorable levels. The market article, which appears in every issue, will indicate when, in our opinion purchases may be made, and, as an added feature this year, when they should be sold.

	Recent Price		Recent Price
United States Steel	67	Foster Wheeler	27
Bullard Company	28	Republic Steel	23
Crane Company	36	United Aircraft	39
Fairbanks Morse	40	Masonite	56
Westinghouse Electric & Mfg.	115	United States Rubber	50

United States Steel Corp.

Affording an equity in one of our premier industrial organizations, the largest producer and fabricator of steel products, and one of the most active and widely held common stocks, United States Steel shares represent frankly a speculation upon the sustained progress of business recovery in 1939. For business recovery from this point on to assume worth while proportions, it will be necessary that it embrace in appreciably larger measure most of the capital, or durable goods, industries. As to whether it will or not, much would seem to depend upon the degree to which industry is encouraged to undertake large scale replacement of plant, machinery and other equipment. Regardless of the state of general business over the past ten years, wear and tear have been unceasing, while replacements have been skimped to the bare essentials owing to the unwillingness of industrial managers to undertake long range commitments. Should the trend of events in the months ahead have the effect of dispelling this attitude, business recovery could easily attain larger proportions than any since the early '30's.

As to the more immediate outlook for the steel industry, automobile manufacturers promise to enlarge substantially their takings in the first quarter. Work is starting or under way on $1,670,000,000 of P W A projects. Building gives every indication of extending the recent gains well into 1939; railroads and public utilities may be encouraged to undertake larger purchases of new equipment; and the proposed Naval construction program will require large quantities of steel.

Activities of United States Steel are conducted on a scale proportionate to its industrial leadership. Operations are completely integrated and include the production of iron ore, coal and limestone, as well as the fabrication of finished products. The company's many plants are strategically located with relation to important steel consuming areas, raw materials and shipping points. This latter fact, coupled with the extensive program of plant modernization in which the company has been engaged over the past five years, is being counted upon to enable "Big Steel" not only to maintain but strengthen its com-

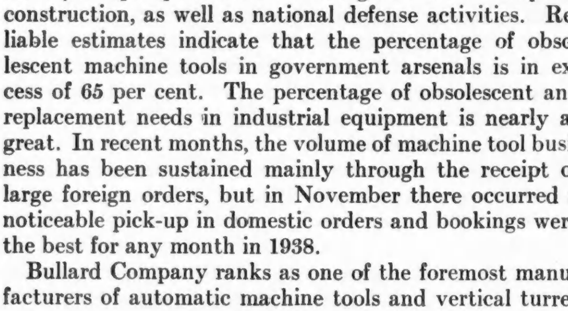
petitive position, notwithstanding the confused implications which followed in the wake of the elimination of basing point differentials and the reduction in finished steel prices last year.

In the third quarter of 1938, U. S. Steel reported a net loss, before preferred dividends, of $5,847,791, bringing the net loss for the nine months to September 30th up to $12,150,368. In the same period of 1937, the company reported a profit of $90,852,853, which was equal, after deducting $4,500,000 surtax and undistributed profits, to $8.26 a share on the common stock. With operations averaging substantially higher in the final quarter of 1938, the probabilities are that the nine-months deficit will be substantially reduced. It has been estimated that the company, in order to maintain operations in the black, must average somewhere between 40 and 45 per cent of capacity. In 1937, U. S. Steel common earned the equivalent of $8.01 per share and in that year the stock sold at a high of 126½. Recent levels of around 67 compare with a 1938 high of 71¼ and a low of 38.

Bullard Company

The speculative possibilities ascribed to the shares of Bullard Company derive from the huge potential demand for new industrial machinery and machine tools. That some portion of this potential demand will be translated into actual sales in the months ahead is promised by the prospect of an increasing volume of new plant construction, as well as national defense activities. Reliable estimates indicate that the percentage of obsolescent machine tools in government arsenals is in excess of 65 per cent. The percentage of obsolescent and replacement needs in industrial equipment is nearly as great. In recent months, the volume of machine tool business has been sustained mainly through the receipt of large foreign orders, but in November there occurred a noticeable pick-up in domestic orders and bookings were the best for any month in 1938.

Bullard Company ranks as one of the foremost manufacturers of automatic machine tools and vertical turret lathes. The company's line includes some of the most efficient tools developed for use in the automobile, aircraft, railroad and railroad equipment industries.



Companies such as Crane and Masonite will benefit from increase in building operations.

Aided by a modest capitalization, Bullard Company has been able to make a better-than-average per-share showing among other organizations manufacturing machinery and heavy capital goods. In 1937, net of $879,118, compared with $691,701 in 1936 and about $294,000 in 1935. After payment of a surtax of $49,630 on undistributed profits, earnings applicable to the 276,000 shares of capital stock, which comprise the entire capitalization, were equal to $3.19 per share in 1937, comparing with $2.50 a share in 1936. No statement later than the first half of 1938 is available, in which period the company reported net of $101,217, or the equivalent of 36 cents a share, comparing with $466,870, or $1.69 per share in the same period of 1937. Financial position at the close of 1937 was comfortable. Last March the company paid a dividend of 25 cents a share but no further declarations have since been made.

Responding to the improved outlook in the months ahead, the company's shares at 28 are selling close to their 1938-39 highs. These levels compare with a 1937 high of 45¼. The prospect that the company's sales and earnings will record appreciable gains appears sufficiently assured to justify inclusion of the shares among the more attractive speculative issues.

Crane Co.

Crane Co. is the largest manufacturer of valves in the world. The company's standard line includes a wide variety running all the way from a toy-like eighth-of-an-inch fitting to valves no less than eighty-four inches in diameter. Although valves are the main part of the company's business, probably it is best known for its plumbing fixtures and appliances, which include bathtubs, lavatories, sinks and drinking fountains, fitted with Crane faucets, showerheads and whatever plumbing accessories may be necessary. Another division is engaged in the manufacture of cast iron boilers and radiators, for both industrial and domestic application. In addition the company makes a number of miscellaneous items of machinery, such as pumps, steam and oil separators and pressure regulators, and on an agency basis, sells vast quantities of pipe. Distribution of these products is on an international scale and important manufacturing subsidiaries maintain plants in Canada and England. The company obviously is closely identified with the building industry but other important sales outlets are afforded by the public utility, petroleum, railroad and shipbuilding industries.

The widely varying fortunes of these latter industries have been reflected in the earnings of Crane. In 1928, the company earned $7,000,000 and in 1929 profits totaled $13,000,000. In the three years ended with 1933, on the other hand, losses amounting to $17,400,000 were reported. Necessitous writedown of inventory values contributed substantially to the deficits in those years. Since 1933, sales and earnings have risen substantially and in 1937 the volume of $98,543,000 was about 26 per cent higher than in 1936. Profits in 1937 totaled $9,765,126, which, after allowing for preferred dividend requirements,

were equivalent to $3.63 a share on 2,348,628 shares of common stock. In 1936, the equivalent of $2.04 per share of common was reported.

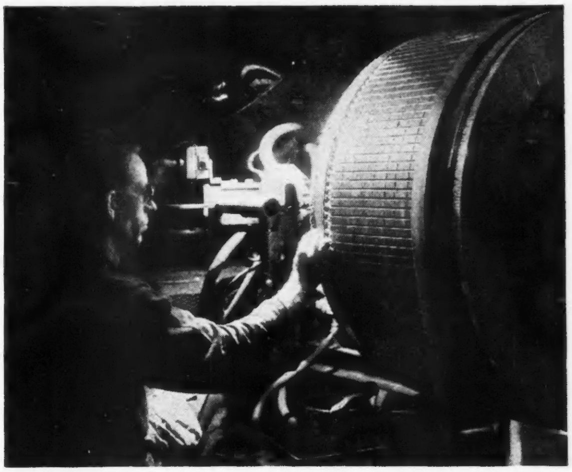
At the present time there are outstanding 2,348,628 shares of common stock, which are preceded by 192,806 shares of 5 per cent convertible preferred stock and $11,427,000 3½ per cent debentures. The nature of the company's capital structure is such that a considerable measure of leverage is imparted to the common stock. The effectiveness of this leverage factor has been demonstrated in the rapidity with which per-share earnings for the common stock may rise under favorable conditions, after interest and preferred dividend requirements have been met. It has been officially estimated that the company showed a loss of approximately $327,000 for the eight months ended August 31, last. This showing, under the adverse conditions which prevailed during that period, appears to have been better than might have been expected. Responding to the marked gains in residential and industrial construction in the closing months of last year, the probabilities are that the company's sales and earnings accorded an appreciable gain.

Around 36, the shares are admittedly generously valued in relation to probable 1938 results. At the same time, however, the more promising outlook for the potential consumers of Crane's products is certainly entitled to recognition marketwise and in the event that these prospects are actually borne out in fact, substantially higher quotations would undoubtedly be recorded. In 1938 the shares had a price range of 42½ and 19, while in 1937, 56½ was the high mark.

Westinghouse Electric & Mfg. Co.

Westinghouse Electric & Mfg. Co., the second largest unit in its field, manufactures a wide variety of electrical equipment, parts, and appliances. While a fairly sizable portion of the company's products is sold to individual consumers, the bulk of the company's sales and profits is provided by sales to industrial, utility and railway buyers. Thus, for the most part, operations are geared rather closely with the state of general business and industrial activity. This characteristic is clearly brought out in the company's 1938 showing. In the first nine months of that year Westinghouse booked orders of only $112,170,228, as compared with bookings of $191,200,758 in the same period of 1937. Orders billed in the first nine months of 1938 totaled $119,530,418, as compared with $154,839,997 in the same period of 1937. At the close of last September unfilled orders on the company's books totalled $43,817,402, a decline of some $34,000,000 from the volume of business on hand at the same time in 1937.

In the closing months of 1938 there occurred some slight pick-up in new orders but the probabilities are that the final quarter witnessed a further depletion in unfilled orders. This situation would seem to indicate that some lag in the extent of the company's recovery in sales and earnings over the next several months may be expected. Inevitably, however, the company's business will respond to any improvement in general business, in the heavier industries specifically. That such will be the pattern of 1939 prospects would appear to be borne out by the company's experience in recent years. In 1933 Westinghouse reported net sales of $66,431,592 and in that year operations resulted in a net loss of $8,636,841. The following year, the company's new business increased 47 per cent and sales were up 38 per cent, resulting in a modest profit of $189,563. A 30 per cent gain in sales in 1935 brought the total business volume up to $122,588,566 and resulted in a net profit of $11,983,881. The latter was equivalent to $4.50 per share on the combined preferred and common stock outstanding. On the basis of the company's showing in these years and making ample allowance for the higher costs now in effect, it would appear that the current pay-point is probably represented by an annual sales volume of between $95,000,000 and $100,000,000.



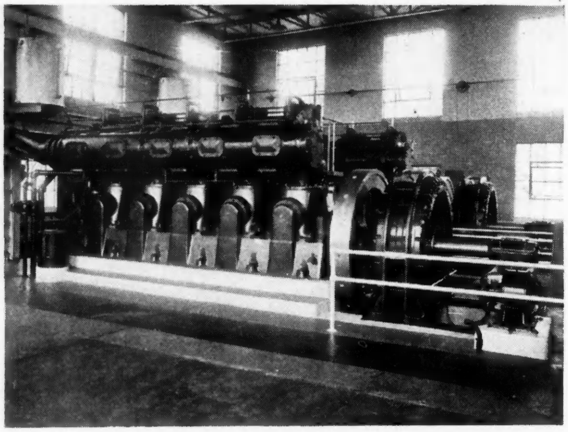
Brazing connections on a rotor for an electric locomotive motor at Westinghouse Electric and Manufacturing Co.

In the first nine months of 1938, net profit of $6,212,823 was equal to $2.31 a share on 2,596,165 shares of common stock. This compares with $16,726,520, or $6.26 per share on the combined preferred and common shares in the first nine months of 1937. For the full 1938 year, about $3 per share will probably be shown for the common stock.

Recently selling around 115, it is only too apparent that the company's shares are discounting an appreciable improvement in 1939 earnings. Granting the existence of considerable market optimism, nevertheless the company's demonstrated ability to develop substantial earning power under reasonably favorable conditions would seem to provide a fairly sound basis for such expectations. In 1937 the shares sold as high as 167⅝ and the price range in 1938 was 124⅞ and 61¾. With the possibility that Naval and public utility construction may serve further to accelerate earnings recovery, the shares appear to represent sound speculative value.

Fairbanks Morse & Co.

Fairbanks Morse & Co., in addition to being one of the foremost manufacturers of all types of weighing apparatus, is a leading manufacturer of internal combustion engines, Diesel engines and electric motors. Other products bearing the company's name include electric generators and magnetos, pumps and also pump equipment, railroad equipment and supplies and farm appliances.



A Fairbanks Morse diesel installation in a municipal power generating plant.

The company has obtained a prominent position among the leaders in the development and manufacture of diesel engines, a source of power which is steadily finding broader application. The company's line of diesel engines is an extensive one, ranging in size from ten to fourteen hundred horsepower for marine purposes, and around two score sizes for stationary installation suitable for any purpose excepting larger type of power stations. Sales outlets for the company's diesel units are provided principally by marine, municipal and industrial installations.

Being closely identified with the capital goods industries, earnings of Fairbanks Morse have fluctuated widely. Deficits were reported in the depression years, 1931, 1932 and 1933, the aggregate losses in these years amounting to about $8,850,000 after depreciation. During the depression years, however, the company was successful in introducing important operating economies, resulting in a lowering of the "pay point."

As a consequence, the rising sales trend in the years subsequent to 1933 produced a noteworthy gain in earnings. Recapitalization in 1935 eliminated accumulated preferred dividends and last November the company retired all of its 6 per cent preferred stock, leaving only $5,561,263 4 per cent debentures ahead of the 598,525 shares of common stock.

The company's profit in 1937 amounted to $2,148,432, equivalent, after depreciation, taxes and preferred dividends, to $3.48 per share on the outstanding common stock. Net in 1936 of $2,252,941 was equal to $3.81 a share. In the first six months of 1938, sales declined about $4,600,000 from the comparable period of 1937, and net profits totaled only $51,780, as compared with $1,003,032 in the first half of 1937. As a consequence, earnings on the common stock were equal to only 3 cents a share, as contrasted with $1.59 per share in the same period of 1937. It is a fairly safe assumption, however, that results improved in the final half of 1938, and further gains are promised in the opening months of the current year. Recently quoted around 40, the shares are selling near their 1938-39 high, although still substantially lower than their 1937 high of 71⅞. The possibility that the 1937 high may again be approached lends interesting speculative promise to the shares.

Masonite Corp.

Masonite Corp. for the fiscal year ended August 31, last, reported net profit of $1,144,274, equal after preferred dividend requirements to $1.96 a share for the common stock. In the 1937 fiscal year, the company's profits amounted to $1,728,091, or $3.03 a share. Considering the difficulties encountered in practically all major industrial lines last year, particularly during the months represented by the company's fiscal year, Masonite's showing may be regarded as quite satisfactory.

The company's ability to turn in a good earnings performance in the face of adverse conditions was due in no small measure to the fact that it is able to apply a low cost manufacturing operation to a cheap and plentiful raw material, obtaining a useful product therefrom and selling it at a favorable price to the ultimate consumer. The Masonite process permits the company to take wood and transform it into wood fibreboard, which for literally hundreds of uses is superior to lumber. Approximately 50 per cent of the company's market lies in the field of construction, the rest in the field of industry, commerce and transportation. During the past few years, Masonite has also entered the growing field of plastics, with a resin-base plastic board. Although not officially reported, the physical volume of the company's business is understood to have more than tripled since 1929. Even under the none too favorable conditions prevailing in 1935, Masonite not only recovered all ground lost during the depression but showed profits more than double those of 1929.

Capitalization is modest, consisting of 538,842 shares of common stock, preceded by only 18,603 shares of 5 per cent cumulative preferred stock, par $100. Current assets at the end of the last fiscal year, including $718,323 cash, amounted to $3,005,878, while current liabilities were less than $800,000. Dividends paid on the common stock during 1938 totaled $1.50, including a 50-cent extra.

In recent months, according to late reports, Masonite's business volume has been running somewhat ahead of the same period in 1937 and the probabilities are that earnings in the initial quarter of the current fiscal year will register some improvement over the 58 cents a share shown in the December quarter of 1937. Subsequent gains, with the combined advantage of increased building activity and better industrial volume, should be more conspicuous. Recently selling at 56, the shares are about 18 points under their 1937 high. Obviously, the better outlook has been recognized marketwise in the recovery of the shares from their 1938 low of 25 but with the benefit of further sustained improvement, the issue offers the speculative promise of duplicating and perhaps bettering the 1937 high.

Foster Wheeler Corp.

Foster Wheeler Corp. specializes in the production of boiler-room and petroleum refining equipment. The company is one of the two principal designers and manufacturers of marine boilers and normally about 50 per cent of its gross sales are realized from steam plant equipment, the remainder being oil refining equipment and

tubing. Foreign sales make up a substantial part of the company's business, plants being maintained in Canada, England and France. With the possibility that leading public utility units may feel sufficiently encouraged to undertake at least some portion of long deferred expansion of generating facilities, plus the expressed intention of the Government to enlarge substantially our Naval and merchant marine forces, prospects for improved sales and earnings for Foster Wheeler are distinctly more promising than they have been in some time. Prior to the depression, public utility business accounted for 60 per cent of the total volume handled by the company, while in subsequent years it has had to rely more heavily upon oil refinery and marine equipment.

In view of the highly specialized character of the company's business, and handicapped by an uninterrupted series of adverse circumstances, Foster Wheeler has as yet been unable to make any noteworthy recovery from the last depression. Losses have been shown in every year since 1930. In 1937, however, on a gross sales volume of $10,566,517, the company showed a profit, after depreciation, of $52,000. On the basis of this showing it would appear that sales of approximately $10,000,000 represent the company's present break-even point. At the end of last July the company had unfilled orders on its books of more than $11,000,000 and aided further by the improving business prospects throughout the last six months of 1938, it is more than likely that operations last year produced a modest profit. Net in the first six months amounted to $77,214, or the equivalent, after allowance for preferred dividends to 7 cents a share for the common stock.

Capitalization is simple, being comprised of 258,180 shares of common stock and 16,728 shares of $7 preferred stock. On the latter there was an accumulation of $43.75 unpaid dividends as of January 1, 1939. The elimination of these dividends, however, with the benefit of any reasonable recovery in the company's earnings would seem to present no insurmountable difficulty. In 1937, Foster Wheeler common sold as high as 54½ and as low as 11½, while the price range in 1938 was 29⅝ and 11. Considered frankly as a speculative stake in the ultimate recovery of the heavier industries, the shares may be conceded possibilities for substantial price appreciation. A more detailed analysis of Foster Wheeler appeared on page 310 of the December 31st issue of The Magazine of Wall Street.

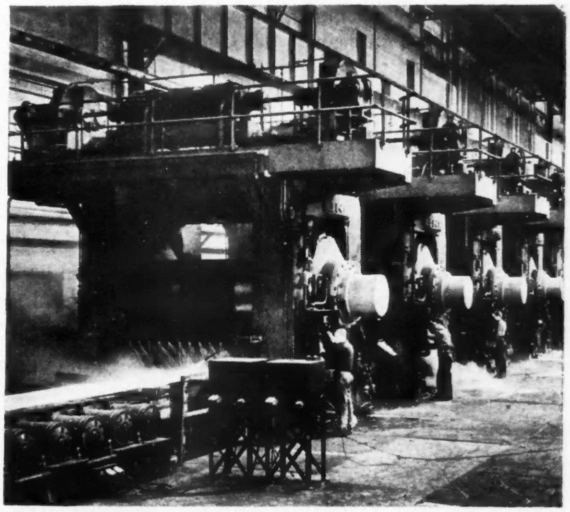
United States Rubber Co.

Some measure of the marked improvement which has taken place in the affairs of U. S. Rubber is afforded by the action of directors late in November in declaring a dividend on the 8 per cent preferred stock, the first payment on this issue since February 15, 1938. Notwithstanding the many business and industrial vicissitudes of the past ten years, the management has performed an outstanding achievement in strengthening the company's financial position, as well as rehabilitating its competitive standing as one of the leading manufacturers of automobile tires and tubes and a diversified list of miscellaneous rubber products. Since 1928 consolidated funded indebtedness has been reduced from $130,000,000 to $44,950,000, as of December 31, 1938. On July 1, last, the company called all of the outstanding first and refunding 5 per cent bonds due 1947, obtaining the necessary funds by the sale of $45,000,000 4¼ per cent mortgage bonds. This financial operation not only resulted in an important saving in interest charges, but removed the indenture restrictions which stood in the way of resumption of preferred dividends. At the present time the company has no bank loans and in addition to the aforementioned bonds, capitalization consists of 651,091 shares of $8 non-callable, non-cumulative preferred stock and 1,536,100 shares of common stock. It has been officially estimated that cash balance at the end of 1938 was in the neighborhood of $15,000,000.

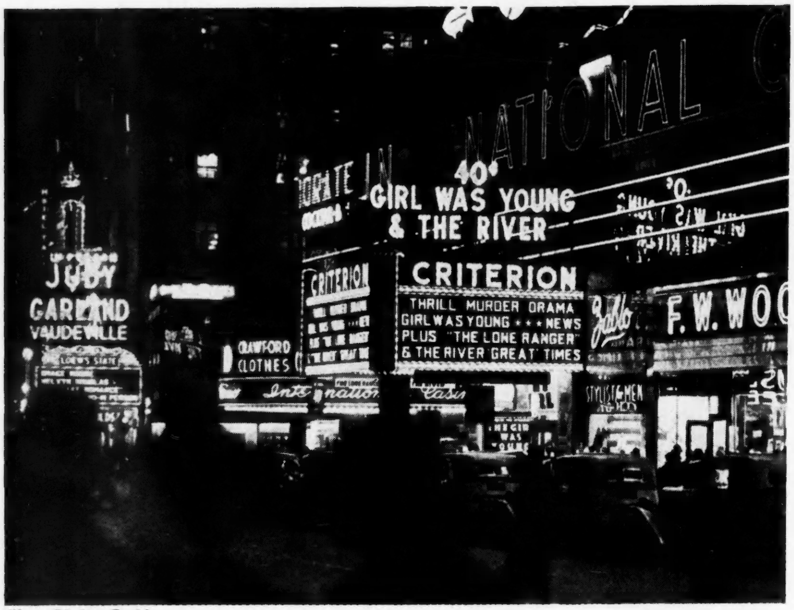
In addition to strengthening the company's financial position, operating efficiency has been appreciably stepped up by the elimination of obsolete plants and the installation of modern equipment. It has been officially indicated that 1938 profits were in the neighborhood of $5,200,000, or the equivalent of about a full year's dividend requirements on the $8 preferred stock. It is obvious, therefore, that earnings staged a substantial recovery in the last six months, inasmuch as a net loss of $239,213 was shown in the first six months. Consolidated earnings in 1937 totaled $8,607,903, equal after allowing for preferred dividend requirements, to $2.21 per share for the common stock. Net in 1936 of $10,172,484 was equal to $3.31 per share on 1,497,531 shares of common stock. Earnings in 1938 were restricted by the slump in both original equipment and replacement tire sales, as well as by the necessity of making required inventory adjustments.

Crude rubber prices have since recovered to a point where large inventory write-offs will not be necessary; demand for tires has expanded considerably, aided both by increased replacement sales and substantially larger takings by the automobile industry; tire prices have been advanced and with U. S. Rubber heavily supplied with low cost inventories, higher prices should find substantial reflection in near term earnings.

Recently selling around 50, U. S. Rubber common has recovered substantially from the 1938-39 low of 21. However, with current prospects (*Please turn to page* 394)



Part of Republic's new continuous hot strip mill in operation.



Chas. Phelps Cushing

What's Wrong With the Movies?

BY F. D. LOMBARD

In New York during recent weeks they have been holding a sort of "button-button, who's got the button" inquiry in the courts to determine—if possible— who got quite a number of million dollars in MGM movie profits that the stockholders didn't get but think they were entitled to. In some such simple manner about thirty years ago began a series of revelations which a little later blew the top off the life insurance business and carried into prominence the modest, bearded gentleman who now sits in the high seat of the United States Supreme Court. It is just possible that the MGM stockholders suit will start other inquiries, not necessarily of a financial nature, which may clean out a number of unsatisfactory and unexplained corners of the movie industry.

To begin with, the movie business is a hybrid affair, neither a true industry or a true art, requiring the common sense and financial acumen of the great industrialist welded to the genius of the great artist. It we can imagine a composite of Henry Ford and Booth Tarkington going into the movie business, that might be an ideal set-up to control a studio in Hollywood and its distribution system centering in New York. Unfortunately the combination doesn't exist and the result is that while great sums have been earned, the process of earning has been conducted over a grating, down which equally huge sums have wastefully slipped.

Just now the movie problems seem to center about (a) salaries and bonuses, (b) lack of patronage at movie theaters, (c) slippage of quality, (d) ethics of production and theater ownership, (e) foreign markets. Let us take them as listed.

Probably the men at the top of the movie business get no more in salaries and bonuses than the top men in several other lines of business—steel, motor manufacturing and the like. The ability to conceive and put into marketable form a great entertainment idea, and to repeat that performance from time to time, is so valuable that no one has yet been able to determine its value. The difficulty seems to be that the movies have never yet noticed that the spoken stage found and applied the method many years ago. They made the great dramatist and the great producer sharers in the profits of their work. Sometimes when the star was great enough they gave him a share also. But very seldom have the movies tried this plan. They might consider it. There is and has been considerable doubt that any man or woman can render any service that is worth, day in and week out, more than $1,000 a week. One is tempted to wonder what service a dozen or more player folks perform that warrants wages of five, six or seven thousand dollars a week over a period of several years when such benefactors of humanity as the Curies, the Listers, the Wrights and so on were rewarded by public acclaim for the most part.

True, there has been a tendency in recent years to hire the player by the picture, but when the sum paid for that player's work over a period of five or six weeks runs into a quarter of a million dollars the absurdity is even more apparent. I am not enough of an economist

to explain an apparently unwritten rule that the player's remuneration should increase in proportion as the size of his audience increases. I can simply cite the fact that it is so. Twenty-five years ago it was a truly great actor or actress indeed who could command $750 a week for thirty or forty weeks. Then the movie stipend began at $5 a day. Then as the audiences viewing some particular effort multiplied the player's wage rose—and with it the director's. Then came radio. The movie player was paid—say —$4,000 for a week of 48 hours. The present-day radio star may get $4,000 for one-half hour performance each week. The stage player's audience was seldom over 1,500 people per performance; the picture star's performance at any one showing may be a thousand times that; while the popular radio star may play to ten or twelve million at each performance. And the folly of the exorbitant salary is further shown by the amounts deducted for income taxes. A salary of $3,000 a week means some $67,000 income tax out of the $150,000 per year. Some months ago Carole Lombard stated that while she earned $460,000 in 1937, she actually netted $60,000! She would have been about as well off if she had earned $200,000 in the year.

Leading Movie Stocks

	Earnings Per Share 1936	Earnings Per Share 1937	Earnings Per Share 1938	Latest Dividend	Recent Price
Columbia Pictures (a)	$3.80	$3.10	$0.06(d)	2½%(c)	15½
Loew's, Inc.(b)	6.73	8.47	4.80(f)	$0.50g	54
Paramount Pictures	1.18	1.97	0.60(E)	....	14
Twentieth Century-Fox	3.67	4.53	3.70(E)	0.50	26
Warner Bros. (b)	0.75	1.48	0.41	....	6½

(a)—Years ending June 30th. (b)—Years ending August 31st. (c)—Payable in stock. (d)—Deficit. (E)—Estimated. (f)—40 weeks ended June 9th. (g)—Plus extra.

Is the Public Tiring of Movies?

One phase of the lack of patronage at motion picture theaters is the argument that the public is getting tired of motion pictures as an entertainment. The alleged lack of attendance may be relative rather than actual. Today it runs, probably, about 70,000,000 per week. But the trouble does not lie there. It goes farther back to the producing studios. You cannot make 600 or 700 feature pictures a year at a steadily increasing cost and expect to profit from them to the extent that you did formerly when your pictures cost half as much while the average box office admission remains the same. First, the public is not getting tired of motion pictures and it will not get tired until some superior form of entertainment comes to take its place. If you are thinking of television, drop it from your calculations for the next five years at least.

Pictures are costing too much—far too much. Here's an illustration: One of the great successes of 1925 was "The Big Parade." The actual return to the studio which produced it was close to $3,000,000. It cost just over $375,000 to produce! Make it again today and the budget for it would be close to $1,500,000 as a minimum. Ah, but you've had sound to add to your costs since then, some one will say. Quite true, but sound merely means an additional cost of 2½ per cent. All classes of labor have gone up in cost, but the raw materials have not risen so much as to cause any particular flutter. My recollection is that "The Big Parade" was written by two moderately paid writers from a suggestive page of typewriting by Lawrence Stallings. Today a feature that doesn't have from six to fifteen authors is a freak. The author problem's absurdity is shown in the writing contracts in which is embodied a clause setting forth just how the authors' credits are to be arrived at. It's worse than determining how a score in a football game played in semi-darkness is to be credited.

The foregoing runs naturally into the question of a drop in quality, and I believe it axiomatic that some of the following conditions at least are impossible of reconciliation:

The movie makers would have us believe that the public demands some six or seven hundred features a year and that consequently these must be produced to insure an adequate box office return. Second, we have the drop in box-office returns, indicating that some, at least, of the pictures were unsatisfactory to the theater patrons. Third, we have the implication that all pictures produced will be satisfactory, or otherwise why should they be made? Every experienced manufacturer knows that high quality and high volume are as antithetic as a Tiffany-Woolworth combination to produce and market jewelry. Boiled down, I'm trying to say that no single studio can produce from fifty to sixty masterpieces each year. This chiefly because one man in each studio must —if he does not actually select—assume responsibility for the selection of the fifty or sixty selections, and no one man is capable of that.

On several occasions a motion picture studio such as Warner Brothers, Paramount, Twentieth Century-Fox, and so on, has been likened to a great publishing house—Harpers, Dodd-Mead, Doubleday, etc. But the analogy will not hold. First the publishing house does not schedule fifty best sellers for a year, and assuredly it does not plan these in the detail that the studio plans them. The publisher occasionally does call in a well-known author and outline an idea for a book, but the bulk of books are submitted for approval. The movies, however, have long since shut off that source of ideas. They will not accept unsolicited material from the general public, but return it by registered mail in the unopened package. This because of plagiarism suits. So we come back to their necessity for dealing with well-known authors through well-known agents and even then there are occasional successfully prosecuted suits.

Let us return to a statement a few paragraphs back: that the studios assume the public demands six or seven hundred features a year. Of course, actually the public demands nothing of the kind. And that assumption is part at least of the trouble; the rest lying within the realm of distribution and exhibition. Because pictures are ineffectively exploited and exhibited, their drawing power is believed to cease after three, four and seven days. And yet, given a picture that contains value, and not a hurriedly put together (*Please turn to page 398*)

Happening in Washington

BY E. K. T.

Congress session will be long, lasting into summer. Roosevelt will dump problems on Congress, let it work things out by itself, will not attempt to interfere openly. But Administration will seek to influence legislation behind scenes and later, if things are shaping contrary to Roosevelt's desires, he will abandon his hands-off attitude. Major tasks are revision of existing laws, railroad legislation, taxes, defense, health program, social security revision.

Party solidarity will be sought on both sides of the aisles in order to build united fronts for 1940. This will require development of leadership, which has been lacking. There will be no open coalition between Republicans and conservative Democrats, but with Republicans having 2 to 3 ratio on House committees few radical measures will reach the floor. Democrats are turning instinctively to Garner for leadership, which he is giving unostentatiously but forcibly. Garner will be the real leader of this Congress.

WASHINGTON SEES

- Congress solving problems unhampered for the present
- Business improvement sought by minimizing labor disputes
- Pump-Priming and deficit financing continuing
- Anti-Trust Law enforcement but little other persecution of big business
- Corporate Accounting made subject to Federal regulation
- Intensified Wage-Hour enforcement
- Important railroad legislation, social security revision and tax laws imminent

New Deal objectives will be fought for by Roosevelt under guise of defense, making democracy work, raising national income. He will claim to be content if objectives are retained, letting Congress fight over methods and details.

Business improvement plans are being shaped in Administration circles, ideas for minimizing labor disputes, increasing employment, improving investment opportunities. Details are vague as yet but parts of the outline jibe closely with suggestions heard at monopoly investigation hearings. Harry Hopkins will be the spearhead.

Investment theory of Government deficit spending—the Eccles theory of glorified pump-priming—is officially adopted not only as the excuse for past deficits but as justification for not trying to balance the budget. Idea is that heavy Federal spending is necessary to offset decreased private spending and investment and that relief, public works, etc., are actual investments which bring social returns now and financial returns in increased national income later on.

Cabinet changes show Roosevelt is determined to keep New Deal objectives in the fore by placing pronounced liberals in key administrative and policy positions, whatever Congress may do with legislation. And the administration of a law, the application of a policy, is as important as its drafting. By paying less attention to the legislative and more to the executive branch Roosevelt can entrench liberalism in the Federal Government in a way which could outlast a reaction in Congress since lesser officials, not subject to political upsets, would remain imbued with the New Deal philosophy. Hopkins and Murphy appointments also show the extent of the personal element in the Administration, how Roosevelt prefers and rewards those who unfalteringly defend him and his policies, sours on "yes, but" men. Other appointments, recent and to follow, show the same characteristics.

Hopkins in Commerce: businessmen have their fingers crossed. He has no business background, but neither had Roper, and he is much more dynamic, much closer to White House. He will stir things up, put Department

on the map, but will not shake up personnel much nor interfere with routine operations. His job is to bring business and Government closer together, but it is not yet clear whether he will attack this by trying to convert business to New Dealism or defending business views in Administration councils. If he is running for President he will have to avoid antagonizing business.

Reemployment drive is Hopkins' first big idea of co-operation—voluntary action of business to reduce relief rolls by hiring more men and expanding business activity. Has been tried before with indifferent success under more favorable staging, but he may have the luck to ride on crest of general business improvement and get credit for bringing business-Government harmony.

Industrial economics bureau, if and when created by Congress to carry on work of Temporary National Economic Committee, should go to Commerce under Hopkins, especially since his former economic adviser, Leon Henderson, is secretary of T N E C. Roper tried unsuccessfully to establish such a bureau, and Roosevelt has asked for it without saying who should supervise it. Hopkins will prepare by revitalizing domestic end of Bureau of Foreign and Domestic Commerce, which may mean less resistance to letting State Department get the foreign end. Federal Trade Commmission and Department of Justice are both angling to get the prospective new bureau, which would be a sort of over-all trade regulation and economic planning body. The Administration has not lost faith in the economic planning concept crudely attempted in N R A.

Anti-trust law enforcement on a broad and constructive scale will be launched by Thurman Arnold if Congress gives him funds. His plan is for regional offices in close contact with business, clarifying laws by case method through large number of test suits, periodic recommendations for specific legislation covering particular situations, use of consent decrees to regulate existing large business units and close-knit groups.

Resale price maintenance and the Tydings-Miller law may soon be attacked openly by T N E C or other Federal agency. Government purchasing agents complain it causes identical bidding, and there is fear law might be used to defeat patent licensing reforms or other anti-monopoly legislation since prices of trademarked articles could be controlled by producers regardless of other considerations. Law may be cited as horrible example of shot-gun legislation since a general policy is applied to all business although designed for only a specific retail situation.

Basing point legislation will not be enacted by Congress. T N E C will study problem some and may condemn rigid single basing point systems but will recognize justifications and compensations in use of multiple basing points in certain industries such as steel and cement; is likely to take a broader view on this subject than F T C in its current basing point cases.

Wage-hour enforcement will avoid N R A crack-down methods in effort to gain public support and start line of favorable court decisions. Initial suits chiefly will involve deliberate violations of intent of law and cases where interstate commerce is unquestionably involved, so that courts will have to uphold the Government unless they find the entire law is unconstitutional (which no New Deal lawyer considers possible). General enforcement will be intensified as soon as funds are appropriated.

Patent legislation will be discussed before T N E C nears a final report, since it can well be separated from other problems of equalizing competition. Subjects considered will include speeding up patent granting and litigation, cutting short interference procedure, making patents run from date of application instead of issuance, preventing base patents being indefinitely extended by improvement patents, and particularly controlling licensing; such as *(Please turn to page* 403)

Hazards and Possibilities in Aircrafts

How Much More Can Be Expected from Them?

BY NORMAN CREIGHTON

The President's air defense program, however ambitious it sounds, may not turn out so universally profitable to shareholders in the aircraft industry as most people like to believe. True, a great deal of money will be made by speculating in some aircraft stocks; but not in all by any means, for the chances of loss are very much present.

Only those companies with the very best management have a chance to make profits and keep their plants on a firm foundation during the next few years. Some of the others may be headed for the serious trouble which frequently results from over-expansion and poor guesswork in estimating future business.

The least profitable of all aircraft manufacturing business is that which depends on orders from the Army and Navy which in turn depend on appropriations from Congress; and everybody knows that Congressional thought is swayed by every political wind that blows. Just now, of course, they are chill cross-winds from both Europe and Asia where governments are using ever-increasing air force strength to impose their will on democratic peoples. Thus the United States takes heed and decides to build up its own air forces. To what magnitude? That remains for Congress to decide after hearing expert evidence from the Army and the Navy. Those hearings may take weeks or months before a decision is made, but present evidence points to the ultimate adoption of a more moderate and longer range program than would seem likely from the talk of a few weeks ago and on which most issues advanced so spectacularly.

That there will be, however, a substantial increase in aircraft requirements is almost certain; although a revolution might destroy Nazi power in Germany and have the effect of lancing an over-ripe boil. The urge to costly armaments then should subside.

There are many other factors to be considered in the present speculative run-up; and they are stated here, frankly, as a warning to those who may be tempted into believing that any and all aircraft stocks are certain to show big profits.

Twice since the World War the aircraft manufacturing industry has found itself on the verge of ruin, its markets littered with obsolete planes and its factories too big for the small volume of business. This was the result of over-expansion. When they learned that there was not enough business to keep even half the plants busy, some of the manufacturers indulged in all kinds of competitive tactics, and took orders that often involved serious losses. That impoverished the industry.

In general, present managements are too experienced to be stampeded into disaster again; but the boards of directors in some instances will force the managers into unwise expansion programs because refinancing will be easy.

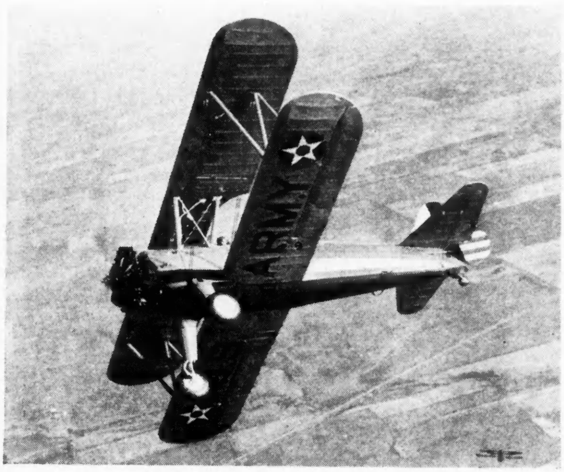
Despite all that has been printed to the contrary, people seem to think that the industry has been operating at capacity and that it must expand to take care of the new defense orders. Never in its post-war history has the industry seen capacity production.

The plane and engine business in 1938 was about $140,000,000, an increase of $25,000,000 over 1937. Yet as this is written several companies could handle considerably more business, among them Boeing, Consolidated, Seversky and Aviation Corporation, not to mention practically every company in the commercial field. Douglas, Lockheed, Glenn L. Martin and North Ameri-

Boeing Super Bomber—greatest weight-carrying plane in the world.

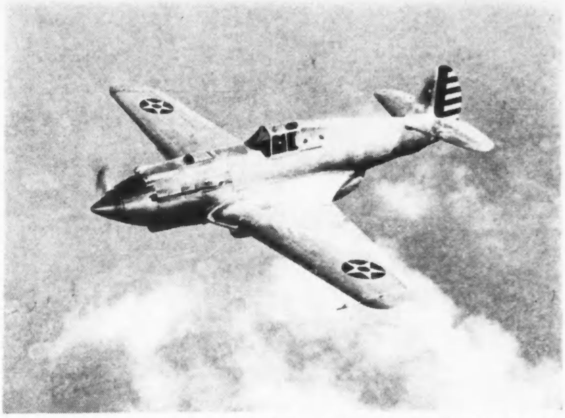
can Aviation are doing exceptionally well, both at home and abroad. United Aircraft and Curtiss-Wright have been in an excellent position because they turn out planes, engines and propellers. Their able management and experienced engineering staffs have been able to produce not only what our own services need in the form of planes, engines and propellers; but they also have a great export trade throughout the world. They can make real profits in exports because their development costs, in most cases, have been absorbed by their U. S. military contracts. In any new program both United and Curtiss-Wright soon should be in even a stronger position. Boeing, too, should pick up in earnings, because it has in sight orders for both large bombers and the famous training plane turned out by its Stearman division.

No company in the industry is turning down new business. As a matter of fact the industry as a whole can turn out more than twice its present production without adding any factory space. It need only spend about six months training new labor until the total grows from the present 36,000 to more than 70,000. That and the same length of time spent in re-tooling and adding new machinery would enable the manufacturers to fill any reasonable orders from the Government and at the same time take care of all other customers, domestic and export.



One of a large fleet of training ships (Stearman, Division of Boeing).

Most observers believe that the Army and Navy aircraft programs will be laid out over a period of from two to four years. They agree that the two services cannot possibly use more than 6,000 new planes during the next fifteen months, for several reasons. Both army and navy will need personnel and surface facilities for new ships; and they would do well to provide for 6,000 new planes in that time. Most important, the services want good planes, equal if not superior to those of a possible enemy. Such is the technical progress abroad that the services would prefer to proceed deliberately and lay emphasis on steady development rather than rush in and waste the taxpayer's money on thousands of unnecessary planes that will be obsolete in two years. Congress probably will agree with the Army and Navy heads. The leaders of the industry know that they can produce at least 6,000 military planes in from 15 to 18 months after receiving orders, so there may be agreement all around, between the industry and the Government.


Army Pursuit Plane (Curtiss), believed to be the fastest in the world.

The new service requirements should be for much larger quantities of the same model, thereby creating longer production lines—an approach at standardization. Lockheed's English order for 200 twin-engine ships and Australia's order for 50 of the same model show what our own services may do. Still, foreign orders differ from our own Government's business in that they are not hedged in by laws and regulations restricting profits.

Under the Vinson-Trammell Act the Navy's aircraft purchases have a profit limitation of 10 per cent which in practice works down to such a low margin that some manufacturers do not seek Navy orders. The Army to date has been equally well-protected by its system of accounting on aircraft orders. There is every indication that the industry will be restricted as to profits under any new program; and this development should be followed closely by investors.

Something that the speculators should watch is the inevitable hue and cry in favor of nationalized aircraft plants inspired by organizations and individuals that have their own axes to grind. The services know that Government plants cannot produce efficient aircraft at any price; but this socialistic idea, if exploited by campaigns in Washington and attacks on the industry, can send aircraft securities below their true values just as they have been raised to present levels by the Government's plans for air defense.

The outlook for foreign trade is not so clear to the experts. The 1938 export trade totaled about $70,000,000 as compared to $39,000,000 in 1937, including planes, engines, parts and accessories. The increase of about 775 planes exported in 1938 as compared to 629 in 1937 accounted for only part of the volume. Most of it was due to larger shipments of parts and accessories.

The aircraft instrument and accessories companies will benefit materially by any new program, because their returns on the sales dollar are greater than those in plane building where labor costs are greater.

The present neutrality law may be changed by Congress one way or another. It may either develop greater export trade or tend to stifle it by restricting shipments of military character. The *(Please turn to page 394)*

Latin American Investments Since Lima

Are Stakes in Mexico, Chile, Peru and Elsewhere Further Jeopardized or Strengthened?

BY DR. MAX WINKLER

UNITED STATES investments in Latin America, comprising so-called portfolio investments as well as direct investments in plants and properties, are estimated at $4,600,000,000 compared with an investment in Europe of $3,100,000,000. United States trade with the republics south of the Rio Grande amounted last year to $1,344,500,000 compared with trade with Europe of more than $2,000,000,000. In 1913 United States Investments in Latin America were estimated at $1,648,700,000 and total trade with the southern republics amounted to only $842,000,000. On the other hand, investments in Europe prior to the war were estimated at $691,000,000, and trade with the Old World in the last pre-war year amounted to $2,365,000,000.

These figures reveal one rather significant fact: For every increase in United States investments in Latin America compared with 1913 of $100, United States trade with the southern republics increased $17, whereas for every $100 increase in United States investments over the pre-war figures in Europe, there was a decrease in commerce with the Old World of $7.

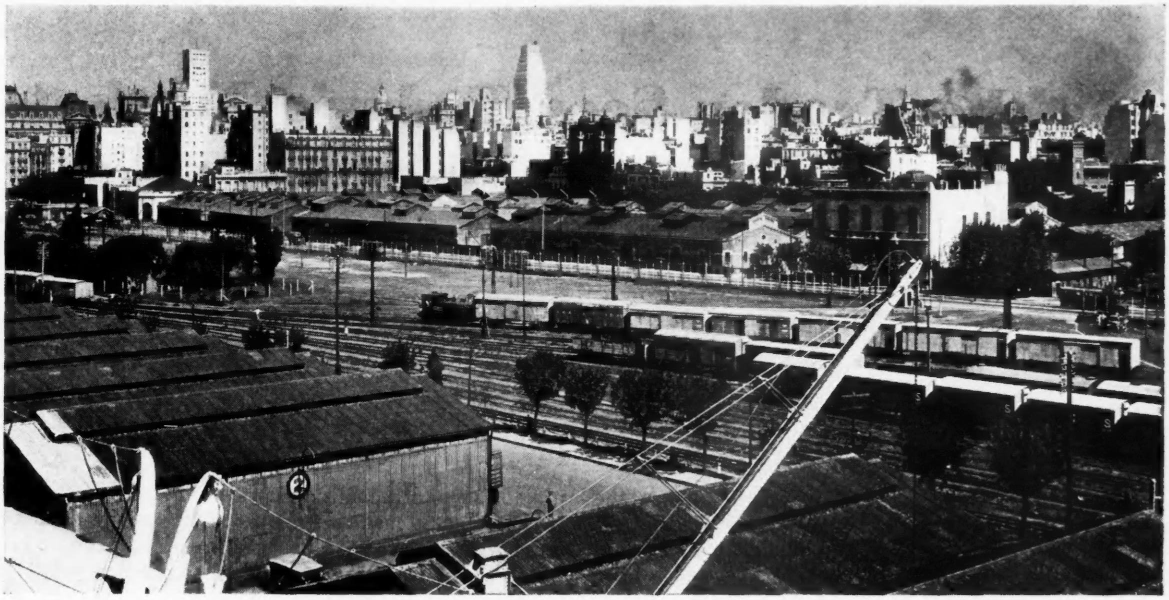
Owing to the important position occupied by the United States in the field of commerce and finance between this country and the southern republics, developments south of the Rio Grande cannot be viewed with indifference. On the other hand, American investors as individuals have not fared so well in Latin America. Moreover, the progress made within recent years in Latin America by a number of totalitarian states, notably Germany and Italy, is beginning to make itself felt upon United States trade with its southern neighbors. What the United States is objecting to particularly is not the competition as such on the part of other countries, but the sinister methods employed by the competitors. Totalitarian propaganda in Latin America is aimed not alone at American commerce but also at American ideas and institutions. It is for these reasons that the Eighth Pan American Conference convening at Lima, which has just come to a close, is of special importance, not only to the United States, but to the entire western hemisphere.

The most significant accomplishment at the Conference was the so-called declaration at Lima with its pledge of continental solidarity against aggression, signed by representatives of the twenty-one American republics. Other equally significant accomplishments include a declaration on stimulation of trade; a denial of the right of foreigners to exercise collectively in any American country such political rights as they would enjoy in their own countries; a denial to the same end of preventing infiltration of foreign ideas in the western hemisphere; of the right of foreign groups to claim rights as national minorities in the American republics; and a resolution declaring emphatically against persecution because of race or religion. How does this affect investors in Latin American securities?

Investor Neglected at Lima

At Lima, the investor was the forgotten man. Of more than one hundred resolutions introduced and passed in the course of the Conference, not one was even introduced on behalf of American creditors. They will remain at the mercy of their Latin American debtors, hoping that those who have been discharging their engagements promptly and punctually will continue to do so and that those who have seen fit to disregard the rights and privileges of creditors will soon mend their ways.

Holders of Mexican bonds have in all probability by now become resigned to the hopeless status of their investments, which are quoted currently at hardly more than what one might term souvenir values. With the exception of a small payment in the early twenties, Mexican bonds have been in default for more than a generation. Will direct investments be accorded similar treatment? It will be recalled that the Cardenas Government has decreed the expropriation of foreign oil properties in Mexico, presumably on the ground that Article 27 of the Mexican constitution declares that "In the nation is vested the direct ownership of . . . petroleum, and all solid, liquid or gaseous hydrocarbons." Mexico, or those charged with guiding the destinies of the nation, must be aware, however, that the same Article 27 also declares that "private property shall not be expropriated except for reasons of public utility and subject to pay-



Sawders Photo from Cushing

The skyline of the modern city of Buenos Aires in the Argentine, as seen from the docks.

ment of indemnity," and that according to Article 14, "no law shall be given retroactive effect to the prejudice of any person whatsoever." While Mexico is free to adopt any policy she pleases with respect to her public lands, neither she nor any other country is free to destroy without adequate compensation valid titles which have been obtained by foreign citizens under Mexico's laws. A policy of expropriation strikes at the very foundation of international intercourse, "for it is only on the basis of property validly possessed under the laws existing at the time of acquisition, that commercial transaction between the peoples of two countries and the conduct of activities in hopeful cooperation are possible." It is confidently expected that Lazaro Cardenas will heed America's recent protest and will either restore confiscated property to its rightful owners or offer adequate, concrete compensation.

The concern of investors in Chile appears to have increased materially as a result of the recent election of a new president who had the support of the various so-called Left Parties of the Republic, including the Communists and the Socialists. It should be pointed out that the aims and objectives of extremists, whether Right or Left, in Latin America are totally different from those of extremists in Europe. Anyone familiar with Latin American affairs will confirm this view. The present administration in Chile is confidently expected to continue to respect, within certain limits, the rights and privileges of all creditors. The proposal submitted to American bondholders several years ago and which, in the opinion of serious students of government finance, is certainly not equitable, was not the work of a so-called Left Party in Chile but was submitted by the then Minister of Finance of Chile, Sr. Gustavo Ross, a member of the so-called Right, who was defeated for the Presidency in the last Chilean election.

Needless to say, the present government in Chile is not expected to continue to meet the service on a basis more favorable or, to be more accurate, less unfavorable than that contained in the Ross plan. It is strange that one did not hear criticism of or accusations against Ross when he submitted a proposal which, in a way, was virtually equivalent to repudiation because bondholders were called upon to accept a very small fraction of the amount rightfully due them. On the other hand no measures of any kind detrimental to American direct investments in Chile are expected to be adopted by the new government. Aguirre is desirous of attracting foreign capital and he realizes fully the importance of according equitable treatment to foreign creditors. One cannot subscribe to the views held by those who recently sold stocks of companies with extensive assets in Chile because of the political change in the republic.

It may perhaps be added that President Aguirre was quite sincere when he stated in effect that his country would under no circumstances emulate the example set by Mexico.

Direct Investments Fare Better

While it is fairly safe to state that Americans who placed their capital in so-called direct investments in Peru have received substantial profits, this, unfortunately, does not hold true of portfolio investments; that is, bonds of the Peruvian government and political subdivisions, which have been in default for years. However, the benefits derived from America's direct investments may be said to more than offset the shrinkages incident upon the decline in the value of Peruvian bonds. It is not unlikely that an American holder of a Peruvian issue may be an owner of Cerro de Pasco stock, and the enhancement in value of Cerro de Pasco shares may compensate him more than adequately for the losses sustained through the decline in price of Peruvian obligations.

While the dollar debt of Peru is somewhat top heavy if interpreted in the light of (*Please turn to page* 401)

As the Trader Sees Today's Market

A Leverage Index—The English Bear Market

BY FREDERICK K. DODGE

There comes a time in every bull market when the subject of leverage is remembered, dusted off, and set before traders and investors as a particularly new and intriguing reason for buying stocks. Issues which have been hard put to keep their following in the midst of red earnings figures suddenly are discovered to possess the magic quality; where the basis is sound (and sometimes where it is not) leverage on future earnings can mark a stock up to thirty or forty times the current level of profits. This stage is frequently associated with an approaching correction if not an end to the bull market, but to those who consider leverage in the earlier part of a boom it can be most revealing as to comparative possibilities.

The accompanying table gives a leverage index for each of a number of common stocks, chosen without regard to their merit on other counts. The index figure is a number by which any percentage increase in earnings before bond interest must be multiplied to ascertain the percentage gain in profits available for the common equity. If the index is 1.50, then a 10 per cent gain in earnings before interest charges will mean a 15 per cent jump in earnings per share on the common. If the index is 3.10, as in the case of U. S. Steel, 20 per cent higher earnings will boost share profits 62 per cent.

The base for all calculations is the average earning power shown over the two years 1937 and 1938, with the latter year partly estimated. U. S. Steel, for example, earned ninety-five million dollars in 1937 and undoubtedly registered a substantial loss in the following year. The two figures are added, averaged, and increased by the amount of interest charges at the current rate. The relation of this figure to the amount of net available for the common supplies the leverage index.

Most of the issues listed here gain in leverage because of preferred dividends which must be paid before the common participates in profits. Many of them are preceded by both bonds and preferred stock. In no case is the attempt made to allow for temporary debt and its charges, nor for the changes in capitalization which would result from the exercise of conversion privileges attached to preferred stock or to bonds. Because the profit level is arbitrarily placed halfway between that of the last two years, the resulting leverage index is in a sense a compromise—an approximation of the current position in terms of a past somewhat longer than is ordinarily used for such purposes. This seems to be the logical way to iron out the changes of trend in general business which have occurred over the past two years.

Leverage Indexes

Based on 1937-1938 earnings and capitalizations

Issue	Index
Bethlehem Steel	2.41
U. S. Steel	3.10
U. S. Rubber	2.83
Goodyear Tire & Rubber	2.08*
Anaconda Copper	1.15
Kennecott Copper	1.00
Phelps Dodge	1.07*
American Smelting	1.33
Standard Oil (N. J.)	1.05
Shell Union Oil	1.30
Atchison, Topeka & Santa Fe	11.61
Pennsylvania R. R.	5.08
Illinois Central R. R.	21.48
Dow Chemical	1.12
DuPont	1.14
Union Carbide	1.02
American Can	1.21
Continental Can	1.12

*No allowance made for possible conversions.

The three railroad stocks included in the list show the greatest degree of leverage, for the two principal reasons that their debts are large and their recent earnings small. Thus, while it is a fact that gains in income would produce relatively tremendous jumps in per share earnings, the attainment of more nearly normal profit positions would automatically reduce the high leverage indexes for the carriers. As a matter of practical application to stock prices, it should be remembered that the borderline company or the one just emerging from a period of losses shows to greater advantage than one of continuous earning power under this method of calculating leverage.

Entirely aside from the capitalization of a company, most industries contain their own distinct forms of leverage. Large investments in plant, typified by the steel and paper industries, entail corresponding charges against earnings, whether or not the plant is being used at more than a small fraction of its capacity. Many lines are characterized by advancing prices coinciding with active demand, and vice versa, with profit margins widening independently of rising volume. The copper producers are good examples. Inventory positions frequently create a type of leverage, although the effect of this type is likely to be more clearly evident in its reverse form,

during a slump and the resultant drop in earnings.

Whatever method is used to calculate leverage, the two sides to the situation should be kept in mind. Those equities most dramatically favored in good times are the ones hardest hit in a slump. A very high leverage index is thus not only a recommendation of speculative possibilities, but a reminder of what falling profits could do to a given issue.

The English Bear Market

London stock prices have been in a bear trend for exactly two years; our own decline lasted one year almost to the week. We might be philosophical about the market on the other side of the Atlantic, so long as business continues to improve here, except that experience has shown very definitely that the two sets of prices are unlikely to pursue opposite courses over any extended period of time. London made a peak in the second quarter of 1928 and New York kept on the uptrend for another year and a half; the turn in London after a five-year recovery period came at the end of 1936, while New York continued upward for three months longer; but sooner or later, for one reason or another, the two always eventually get into gear together.

If the past relationship is to continue, then either American stocks must stop going up or English stocks must stop going down. There is no time limit; the present divergence may persist for months to come. The two averages are now contradicting each other, however, and they have never done that before without giving a message worth heeding.

The message is undeniably one of caution to us at the moment, but before accepting its implications there are several points to be noted. In the first place, as shown in 1928, the lag between the two markets can be as great as a year and a half. This is not the normal condition, but it can persist for such a length of time. In the second place, London's greatest usefulness has been in the past and should logically continue to be in indicating major turning points, not minor. Trends which have been in effect for a number of years set up world-wide forces, and their reversal is apt to be from causes which transcend boundary lines. Whatever English action may be taken to mean, it is probably not worth worrying over as far as the intermediate trend goes. The two occasions in 1928 and at the end of 1936 when London signaled long-term tops are the best type of what to look for in comparing the two markets.

England, of course, has had her rearmament boom and is more at the mercy of the taxes to pay for it than stimulated by its attractive possibilities. She has had a housing boom, with fine results in living conditions, but nevertheless detracting from the future by the very process of supplying needs which will not soon re-enter the demand side of the equation. War threats and world unrest are much more dreaded, more completely bearish as factors in the London market than they can be in New York.

Aside from any reasons why stocks should be less attractive over there, though, it is important to remember that London's deflations have been less severe than New York's. English prices at the 1936-37 peak were within 5 per cent of their previous high levels of 1928; our prices were at just half their former heights. Today our prices have recovered to about 40 per cent of the '29 level; English stocks are almost twice as high measured by the same relationship. It is possible, even probable, therefore, that despite our uptrend over the past nine months and the English downtrend over the past two years, our prices have more to offer the long-term investor or speculator than London's.

One trend will eventually be proven right as a mirror of world affairs, the other wrong. Hours of rationalizing would be unable to demonstrate the truth in advance—whether, for instance, English securities may not be steadily discounting some tremendous war which would outweigh any other influences. The observable facts include the simple one that both American business and American security prices have been sturdy enough to make headway against all the uncertainties. Many eyes are watching London as the best international guesser on financial matters, and there are undoubtedly many traders whose policies are extremely cautious because of the inability of that market to rally. This is sound policy, but it also raises the probability that when and if London does end its bear market, the psychological effect as an impetus to our own prices should be considerable. The very fact that a growing number of American eyes have learned to watch the English market makes it more necessary than ever before to do likewise, if only as a means of anticipating the conclusions to be drawn by others.

Phelps Dodge Commands a Premium

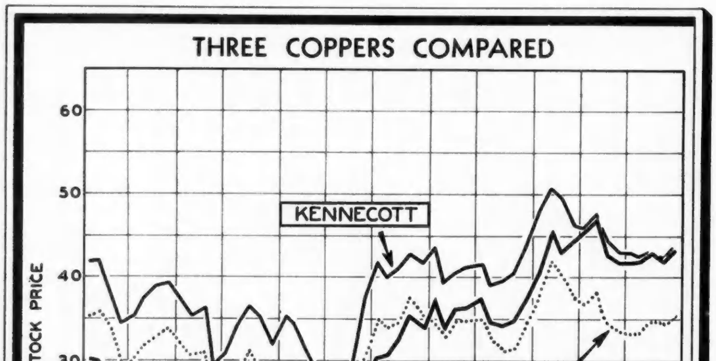
Domestic Copper Producer's Prospects Closely Geared to General Business

BY GEORGE L. MERTON

At $43 a share the common stock of the Phelps Dodge Corp. is a premium issue. Earnings for the first six months of the present year were equivalent to only 75 cents a share and this, before depletion. With the dividend of 55 cents paid December 9, total payments for 1938 amounted to $1 a share. What the company will report for the whole of 1938 is largely dependent upon year-end adjustments, but earnings, say, of $1.50 or $1.60 a share, out of which stockholders will have received $1, is hardly, on the face of it, basis for a $44 capital outlay. Either the market is considerably over-valuing the stock or there must be some very good reasons for believing that though Phelps Dodge may not be worth $44 a share today it should not be long before events justify an even higher price.

The principal reason for the present market's optimistic appraisal of Phelps Dodge appears to be the fundamental one that among the important copper companies this is nearer to being an all-American concern than any other. Phelps Dodge is relatively independent of conditions abroad. At times, of course, it does a considerable export business. It is true also that it possesses interests in Mexico and that these are just as subject to that country's deplorable attitude towards foreign capital as the properties of any other American company. But, even so, the dependence of Phelps Dodge upon foreign markets is much less than the dependence of such companies as Anaconda, Kennecott and American Smelting & Refining.

It does not follow necessarily and under all circumstances that the outlook for a company whose prosperity rests upon the American market is better than that of a company with a large foreign business. At this time, however, there seems to be a definite advantage, for the possibilities of an increase in the consumption of copper in the United States are much greater than the possibilities of an increase in consumption abroad. In the first place, the demand for copper abroad has held up much better than the demand here, not the least of the reasons for which has been the constantly increasing expenditures for armaments in Europe. In the case of the United States, armament expenditures are hardly under way as yet, but they are being expanded and this, coupled with the quickening in general business augurs well for a copper company whose prosperity is more directly geared to the American scene than any other.



Phelps Dodge, it is to be understood, is a completely integrated unit. While mining operations contribute more revenue than any other activity, the company's position is such that it will benefit from an increasing demand for copper no matter from what direction such increased demand may come. Construction, for example, is in a strong uptrend, particularly residential construction. From the British American Tube plant of Phelps Dodge at Bayway, New Jersey, will come brass and copper pipe, oil burner tubes, air-conditioning tubes and other copper and brass products which are found in the modern residence. A pick-up in industrial construction will help the same plant through increasing the demand for condenser, heater and cooler tubes.

Possibly even more important is the stake which Phelps Dodge has in the public utility industry. The Harbirshaw Cable & Wire plant in Yonkers, New York, makes a thousand different kinds of cable and wire, insu-

lated with rubber, asbestos, and paper, and used all the way from high-powered transmission lines to the flexible cord attached to standing lamps in one's home. The Inca Manufacturing plant at Fort Wayne, Indiana, also draws, enamels and otherwise insulates copper wire. Although our public utility industry has long been operating under the cloud of governmental competition and persecution, there are signs of a more cooperative spirit which, if it grows, should result in rectifying the under-built condition of the industry, with material benefits to Phelps Dodge Corp.

Stripping with an electric shovel at New Cornelia, Br., Ajo, Arizona.

A further point is to be made in connection with the position of Phelps Dodge in the American Market: the company is in the midst of an important program which assures it obtaining a greater share of the available business. In the summer of 1937 some $20,000,000 was raised through an issue of convertible debentures 3½s. It has been estimated that the present program ultimately will cost about $41,000,000, more than half of which will be spent on readying and equipping the open pit mine at Morenci, Arizona, a project to be completed three or four years from now. In addition, the plant and operating facilities at Ajo, Arizona, are to be enlarged and improvements and betterments made to fabricating facilities in general. Last year, the two smelters of Phelps Dodge at Clarkdale and Douglas, Arizona, together with the metal from purchased ores, produced 314,448,784 pounds of copper, 6,523,504 ounces of silver and 177,062 ounces of gold. While this was substantially above the output of the previous year, it is not a record, in view of the company's expansion program, which is likely to hold very long.

Impressive Earnings Record

The fact that the company is in the midst of obtaining a larger share of an expanding American market is the main reason for the premium at which the common stock of the Phelps Dodge Corp. is currently selling. There are other reasons, although less important. Among them is the company's record, which has been exceptionally good for one in its field. That year of almost universal bankruptcy, 1932, has been the only time for which an operating loss was reported. Last year's net income of $12,740,773, after depreciation, interest, federal income taxes, including the tax on undistributed profits, and other charges, but without deduction for depletion, was equivalent to $2.51 a share on the common stock outstanding with the public. For the previous year, the equivalent of $2.25 a share of common was reported. Because of the recession, earnings this year will be materially lower than last: the earnings of 75 cents a share for the first half of 1938 have already been mentioned.

The company's capitalization is simple and, therefore, on the face of it, favorable. Outstanding with the public are 5,071,240 shares of common stock which is of $25 par value. The only obligation of a capital nature senior to the common is the $20,285,000 in debenture 3½s which were sold in 1937 to further the expansion program. Incidentally, these debentures, due in 1952, are convertible during their life into common stock at $50 a share. Unless the course of the company's business over the next year or two has been completely misjudged, it is a privilege which will be of tangible value before very long. Selling today at about 114, these debentures might well be considered by one who desires a strong obligation, with all the assurance of uninterrupted income that this implies, which offers as well participation in the earnings recovery of a well-situated company.

Financially, Phelps Dodge is exceptionally strong, although funds, ear-marked for capital enlargements and invested in United States Treasury notes, show the working capital position to be stronger than it actually is. However, working capital is ample for the business as it is today and for what expansion is likely to take place over the next year or two.

It is evidently the judgment of the stock market at the present time that Phelps Dodge is sound in itself and enjoys a favorable outlook over the longer term and that these are advantages which outweigh the current and nearer term uncertainties which are affecting all copper companies. No discussion, however, would be complete if all the adverse factors were left out without mention whatever.

American stocks of refined copper on November 30 stood at 269,438 tons. This represents a material decrease in stocks since the beginning of the year but a great increase over the 161,000 tons on hand at the end of 1936. Deliveries by producers to domestic consumers in November amounted to *(Please turn to page 402)*

The Stockholder's Guide

100% Equity Issues
More Information on Foreign Interests
Undervalued Stocks and High Yields
Surtaxes on Undistributed Profits

STRICTLY speaking all common stocks must be given a speculative rating. In actual investment practice, however, it is a demonstrable fact that the risk in not a few common stocks is more academic than real. It would be possible to list a number of common stocks which on the basis of the actual security and dependable income afforded holders were much more desirable investment mediums than many of the so-called second grade bonds. Not in all cases, to be sure, but many of the better grade common stocks will be found to comprise a company's sole capital obligation, a feature which undoubtedly has aided appreciably in making a long record of substantial earnings and uninterrupted dividends possible. A company not obligated to meet heavy interest charges on funded debt, and preferred dividend requirements, obviously is in a better position to pursue a liberal dividend policy and stockholders' equity is less vulnerable to year-to-year fluctuations in earnings.

Of course there is a reverse side to this picture in that stocks which represent a company's sole capital obligation are devoid of leverage and gains or losses in net income do not produce the magnification of market movement which high leverage issues experience.

Common stocks enjoying 100 per cent equity are not the only good common stocks, nor by any means are all of them high grade, but where this feature exists it provides a fairly reliable supporting foundation. A representative list of "100 per cent equity" issues appears on the next page.

R. K. O. Reorganization

A plan for the reorganization of Radio-Keith-Orpheum Corp. has been tentatively approved by the Federal Court. The Court indicated that several minor modifications would be suggested. The plan provides that holders of the company's debentures will receive one share of 6 per cent preferred stock for each $100 of debentures plus five shares of common stock, or at the option of the debenture holder $140 in new preferred and no common. The preferred will be convertible into eight shares of common stock. Old common stockholders will receive one-sixth of a share of new common, plus a warrant to subscribe to a half share of new common at $15 a share, good for ten years, or at holders' option to subscribe to a half share of new common at $10 a full share, good for five years.

Assuming that all debenture holders elect to take preferred and common stock instead of a larger amount of preferred, new capitalization will consist of approximately $12,718,000 6 per cent convertible preferred stock, requiring annual dividend payments of $763,000, and 2,364,428 shares of common stock, in addition to warrants. It has been reported, however, that the Court will recommend that debenture holders be given 1.43 shares of preferred stock per $100 debenture. The Court will also recommend that certain restrictions be placed on the creation of funded debt without the consent of more than two-thirds of new preferred stockholders. R.K.O. will emerge from receivership in an improved financial position. Bank loans have been liquidated and consolidated cash holdings on October 1, last, were reported at about $6,000,000. An additional $1,500,000 in cash will be provided by the underwriting agreement.

More Information for Stockholders

By and large stockholders today are better informed than ever before of what is taking place in the affairs of companies which invite public ownership of their shares. More and more companies have adopted the policy of making detailed and enlightening reports at regular intervals, and at annual meetings officials have been displaying less reticence in answering stockholders' questions. Commendable as this tendency is, there is, however, room for considerable improvement. There are still companies which, while not actually derelict in their obligations to stockholders, still adhere to the policy of revealing publicly no more or no less than they want to, regardless of the importance of such facts to their owners —the myriad of smaller stockholders having no official connection with the actual operation of their property. A particular point in mind is the failure of many companies with large foreign interests to disclose fully the relative importance of such foreign commitments. The trend of foreign affairs in recent years has resulted in an

ever present threat of property confiscation, quotas, exchange restrictions, and the imposition of other dire restraints conceived in a nationalistic and anti-foreign philosophy. The confiscation of oil properties in Mexico is a warning of what might well befall companies in other countries. In several South American countries the nature of recent political developments has raised concern over the possible fate of the large amount of foreign capital which has been invested there in mines, utilities, etc. The trend of events in the Far East and the dictatorship countries in Europe are too familiar to require repetition. Confronted with the uncertainties implied in these foreign political developments might stockholders not well ask and receive some idea of the extent of their company's foreign interests and what they might stand to lose if confiscation or other threats became an actuality? How much do foreign activities contribute to earnings? What about Anaconda and Cerro de Pasco in South America? American Smelting and U. S. Smelting in Mexico? General Motors and National Cash Register in Germany? Texas Corp. and Socony-Vacuum in the Far East? These are not isolated instances but merely a few selected at random. If a company with such large foreign interests as International Telephone & Telegraph is able to disclose the status of its properties with comparative frankness, why shouldn't others? Stockholders are entitled to know and it would be to their advantage to bring the necessary pressure to bear to find out.

"Undervalued" Stocks and High Yields

The investor would be well advised to look with skepticism upon issues which appear to be selling much lower than earnings would seem to warrant and which yield a higher than average return. Nine times out of ten there are very definite reasons for the high yield and low market valuation—good and sufficient reasons for avoiding the issue. This applies to bonds as well as stocks. Frequently the yield is highest just before it disappears entirely. On occasion, of course, issues may lag behind the general market, but not for long, and the investor or speculator who persists in attempting to pick out "sleepers" will in the end find this a costly policy. Let it not be forgotten that the going market price of a stock or bond at any particular time is the consensus of opinion of literally hundreds of thousands of informed investors. Arguing with their judgment is like betting on a 100 to 1 shot.

Hupp Motor Financing

Plans have been completed to provide Hupp Motor with the necessary funds to proceed with the company's contemplated new "Skylark" model, scheduled for introduction early in February. Proceeds from the sale of 351,714 additional shares of stock, together with a $900,000 R F C loan and the amount which is expected to be realized from the sale of unused properties, are expected to provide between $1,500,000 and $2,000,000 working capital, exclusive of inventories. For some years Hupp has been experiencing considerable difficulty in maintaining a competitive foothold in the automobile industry and as a result dealer organization has dwindled and the company's cars have probably lost some of their former prestige. In the face of the extremely strong competitive position held by Ford, General Motors and Chrysler, the ability of Hupp to stage a real comeback at this time is open to doubt.

Surtaxes on Undistributed Profits

A reader writes to inquire why so many companies chose to pay taxes on undistributed profits rather than pay out enough in dividends to avoid such surtaxes. To this reader we would say that there are comparatively few companies able to "live on their fat" paying out practically all of their earnings to stockholders in the form of dividends. An individual who lives right up to the last cent of his income risks the possibility of an unseen emergency which would find him unprepared financially, requiring him to resort to borrowing. The same holds true in the case of a large corporation.

Directors in framing dividend policies must be governed by a company's working capital needs and other considerations, not the least of which has been the comparatively high cost of new financing under the restrictions imposed by the S E C. Provision must be made for lean years and most corporate managers prefer to pay out each year a conservative portion of a company's earnings, leaving sufficient latitude in the more prosperous years to maintain a reasonable dividend which in less profitable years might not be fully earned.

From an investor's standpoint it is far more satisfactory to receive a smaller dividend year in and year out than a generous payment one year and a smaller, or perhaps, no dividend the next year. Then too it should be borne in mind that a company's earnings may not represent actual cash available for dividends. In the case of farm equipment manufacturers, for example, a very substantial portion of their earnings every year is in the form of notes receivable representing customers' installment purchases. In the main, most companies, however, have adopted a dividend policy which enables them to be as generous to shareholders as is consistent with the safe and sound conduct of their business. A good dividend record is a valuable business asset, reflecting favorably not only upon the ability of the management but the credit standing (*Please turn to page* 404)

100% Equity Issues

Issue	Recent Price	Divs. Paid 1938
F. W. Woolworth	50	2.40
Sterling Products	70	3.80
J. C. Penney	78	4.25
General Electric	43	0.90
Beech-Nut Packing	123	5.50
American Chicle	123	5.50
Hazel-Atlas Glass	106	5.00
Lone Star Cement	60	3.00
Penick & Ford	58	3.00
Sutherland Paper	30	1.60

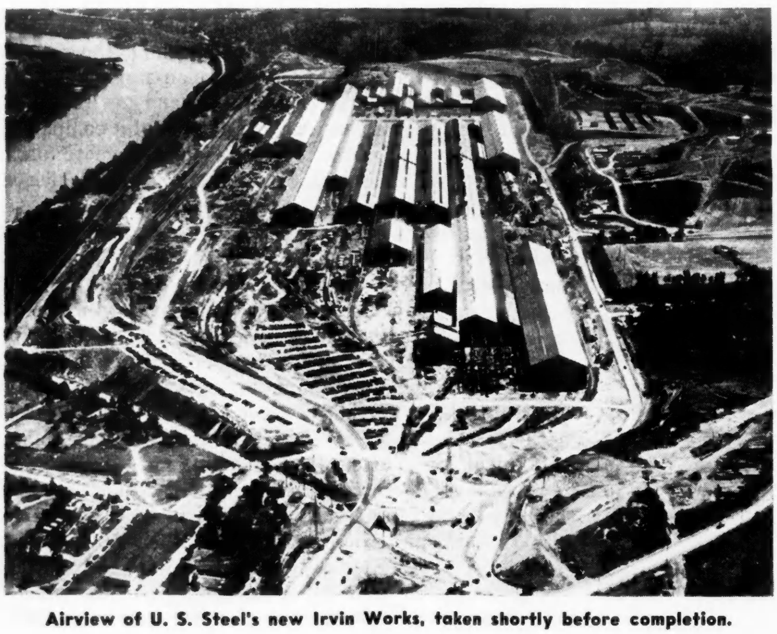
For Profit and Income

Rail Demand

Since the gain in October and November net operating income, railroads have been placing larger rail and other equipment orders. Maintenance expenditures have been held down for such a long time that for safety's sake the requirements of new equipment are becoming imperative. Labor, realizing that re-employment and current wage scales are dependent upon improved earnings, is throwing its influence behind instead of against management with salutary effects upon the Government's attitude towards the rails. Moreover, the experience of Southern R. R. in cutting operating expenses some $2,000,000 by buying new equipment has not been lost on other managements. All this augers well for rail equipment manufacturers such as Westinghouse Air Brake, Pullman, Safety Car Heating & Lighting as well as U. S. Steel and Bethlehem.

Packing Outlook

Judging by early reports, the meat packers' operating profits were wiped out by inventory losses. This gives an erroneous impression of the future, for the past three months have shown profitable operations and packers believe they have the best assurance of good times ahead since 1934-5. Pork inventories are at a near-record low and hog and feed crops prospects assure ample supplies at prices able to compete with other foods. Packers do best with large turnover and stable prices, for the money is made in processing.



Airview of U. S. Steel's new Irvin Works, taken shortly before completion.

Electric Refrigeration

World sales of electric refrigerators for the first eleven months are 1,304,593 versus 2,281,327 last year, and American sales show even a more severe drop. Some comment is heard that the saturation point has been reached but dealers expect a good season next spring due to expanding housing construction.

New Uses for Rubber

The rubber industry is not to be outdone by the glass industry in finding new uses for its products. Already 32,000 articles are manufactured and at a recent ball in Akron koroseal, a synthetic rubber fabric, was introduced. Made of coke, limestone, and salt, it resembles satin and can be used to coat any material. Another new product is rubber-coated bristles to be used instead of springs for mattresses and upholstery.

Insider Selling

Publication of sales by insiders is not necessarily bearish on the company's prospects. No publicity is given to purchases and the reasons behind the sales may be misconstrued. For instance, sales may be made in what the director deems as near the low, for tax purposes. Moreover, the sales take place some

months previous to the report. There were some large Union Carbide transactions by directors in March that were illustrative. The buying was done close to the February top and corresponding sales were made in the last two days of March—on the low of the bear market. Apparently a director though conversant with the affairs of his own company can misjudge the general market just as neatly as the next man.

Developments in Companies Recently Discussed

Allis-Chalmers Company plans to increase production of its small combine harvesting machinery at its La Porte, Ind., plant when an $800,000 addition is completed. The working force of the La Porte plant will be increased 300 to 1,300. The combines and tractors produced will be priced at $840 and are designed for moderate-sized farms.

Lockheed Aircraft Corporation expects to step up production and attain a maximum output of ten planes weekly by next spring. At present the plant is operating on a five-day week with one full shift and has been turning out about one plane a day. Eventually, operations will be in two shifts, seven days a week, in order to reduce the present backlog of $30,000,000.

U. S. Steel Corporation's Irvin Works was formally opened on December 15. There is an 80-inch hot mill with a yearly output of 600,000 tons, a 5-stand tandem cold mill for 14 to 30-gage stock, temper mills, and complete pickling and annealing facilities.

Canada Dry Ginger Ale, Inc., earned $1.12 per common share for the year ended September 30, against $1.19 the previous year. Gross sales of liquor were off considerably, 60% of the net for the year resulting from carbonated beverage sales and 40% from alcoholic beverages. The company plans to construct plants in Long Island, Boston and Rochester to save transportation charges in shipping to those markets from existing plants.

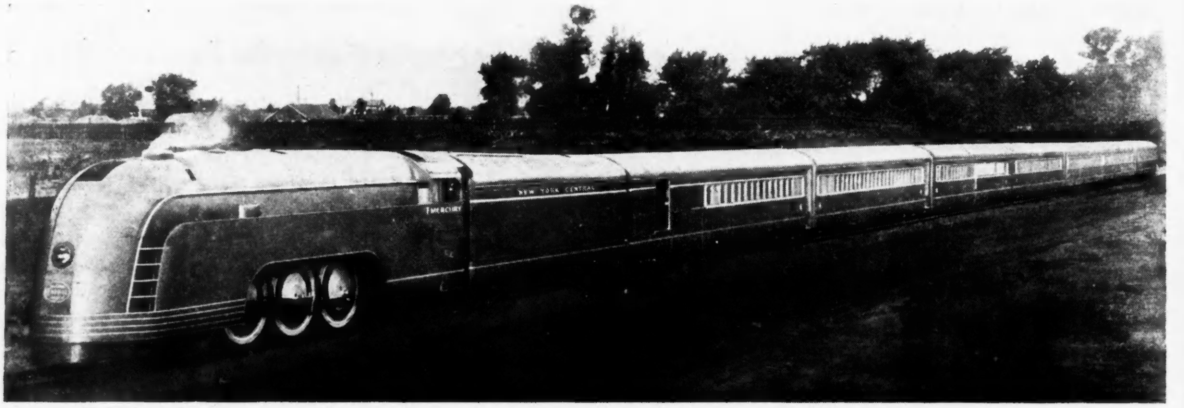
Libbey-Owens-Ford Glass Company's inventories are the lowest in three years despite the recent firing of three new furnaces. Dealers' and jobbers' stocks are also lower. Five out of nine window glass furnaces are operating, an increase of three since September 18, and other glass divisions have also shown considerable improvement.

New Refining Process

In an effort to build up winter heating oil supplies so much crude was run through refineries last fall that the whole oil price structure weakened. The new Houdry process may prevent such unbalanced refining in the future and have a pronounced beneficial affect upon the oil industry. The Houdry process subjects crude to the action of catalysts for the production of high octane gasoline, transposition of fuel oils into heating and Diesel oils, and other uses. Briefly, it makes it possible to convert more of the crude into gasoline and light distillate oils while limiting the quantity of fuel oil produced. Socony-Vacuum and Sun Oil both have a number of plants in operation using the new process and more are building. Total expenditures of these two companies on Houdry plants are around $35,000,000. An outstanding feature of these catalytic operations is their ability to produce aviation gasoline.

All Ears

China has already spent about $2,000,000 of her $25,000,000 loan for motor trucks, 500 each from General Motors and Chrysler. One out of every three trucks produced in the first nine months of 1938 were sold abroad and total sales were about three-fifths of a like period in 1937. * * * An owner of a round lot of Dow Chemical may loan his stock and make $6 a day at the current premium.* * * Since the German demand for submarine parity with England and the consequent possibility of a submarine - building race Electric Boat, as the only commercial submarine builder in this country, has come into prominence marketwise. * * * Watch for significant foreign developments which may have market repercussions here, during the last week in February. Germany has ordered mobilization of various classes at that time and saber rattling is likely to be much in order. * * * Low-priced chemicals are rare. One with promise is Victor Chemical manufacturer of phosphoric acid and phosphates. Earnings were 71c for the first nine months of 1938 against 78c a year ago. * * * Columbia Carbon has rescinded the advance in carbon black prices announced for the first half of 1939. * * Lee Rubber & Tire's November net was the highest in its history and exceeded 50c a share. For the twelve months ended October 31 net was $3.71 against $2.31 in 1937. * * * With prospects of greater security flotations in 1939 the earning outlook for American Bank Note is enhanced. * * * Grain prices are the best in several months and serve to counteract the recent bearishness on farm machinery stocks that followed price-cutting. * * * Cluett Peabody's earnings are reported to have increased sharply to about $1.25 a share compared with 72c in 1937, and 29c for the first half of last year. * * * Foster Wheeler received a Navy contract for $1,179,000 for boiler installations on two battleships now under construction. * * * Sales of Sears Roebuck for the four weeks ended December 31 were the largest for that period in the history of the company. * * * Vanadium Corporation is estimated to have earned $290,000 in the second half of 1938. wiping out the deficit of $5,794 in the first half and amounting to about 75c a share for the full year. * * * Industrial Rayon operated in the black during the fourth quarter despite non-recurring expenses charged to operations and which were incurred in connection with the opening of the new $11,500,000 Painesville plant. * * * If the proposed 45 foot rail is adopted by the railroads in place of the present 30 foot length U. S. Steel will be most benefited. * * * Inland Steel has just completed construction of a new 1,000 ton per day blast furnace.



Courtesy N. Y. Central R.R.

Speculative Rails – Their Potentialities and Dangers

Illinois Central — **Southern Railway**

Southern Pacific — **New York Central**

BY ARTHUR G. SHELDON

THE cashier in the brokerage office of ten or twenty years ago frequently kept his firm's railroad stocks separate from all other securities. The purpose was to enable him to lay his hands instantly on the highest grade collateral to be found among common stocks; when a loan needed bolstering in a nervous market the banks appreciated receiving rails instead of many industrials as additional security.

Today the position is reversed. As a group the railroads are perhaps the most speculative equities listed, with dividends the exception, and only a thin marginal claim on the earnings and assets of a shrunken industry. Leaving aside the roads already in receivership, the majority of solvent lines continue so rather uncertainly and principally because the slumps have been just so bad and no worse. As a long-pull thick-or-thin investment, one could hardly make a poorer choice than the average railroad common stock.

Understanding that, and it should be understood clearly, it is sometimes possible to take advantage of the very weaknesses of rails as investments which tend to qualify them as unique speculations. The generally low rating accorded them, what does that mean? Other things being equal, the unpopular class of securities sells at a discount from the values which would otherwise prevail. When operating results improve, the discount is substantially lessened, although it is not likely to disappear entirely except in a prolonged spell of good earnings. The presence of a discount alone means that rail stocks have the ability under certain conditions to gain in market value more than proportionately with their improvement in true theoretical worth, if that could be calculated.

Then take another investment weakness: the fact that their right to earnings is a marginal one. Tremendous fixed charges, to say nothing of preferred dividends, precede the common stock in most railroads, and a drop in profits which would be undismaying to a simply capitalized industrial company can mean bankruptcy to a carrier. Conversely, however, the road barely covering its fixed charges with little left for its common stock needs only to improve operating income in a moderate degree to achieve startling results in terms of per share earnings. Furthermore, when earnings adopt a favorable trend, not only do the results per share climbing faster than operating income have their direct effect on stock prices, but it becomes entirely feasible and a popular pastime to project those results ahead and show how a nominal extension of the income gain will mean a phenomenal jump in share earnings to be piled on top of those already visible. Price-earnings ratios are in these circumstances likely to climb rather than drop as prices rise.

Most of such projections are made a year or more too late.

Whether or not the new attitude in Washington toward the railroads and the new favor they have acquired in public opinion will permit them to regain their former prestige, what concrete help they will receive in rate-making, in consolidations, in control of competition—

these are questions to be answered in the future. The fact facing us today is that the rails are the arch-type of "swing" stocks, and for pure speculation on a strong broad business recovery they offer outstanding percentage possibilities, to those aware of their dangers and in a position to brave them.

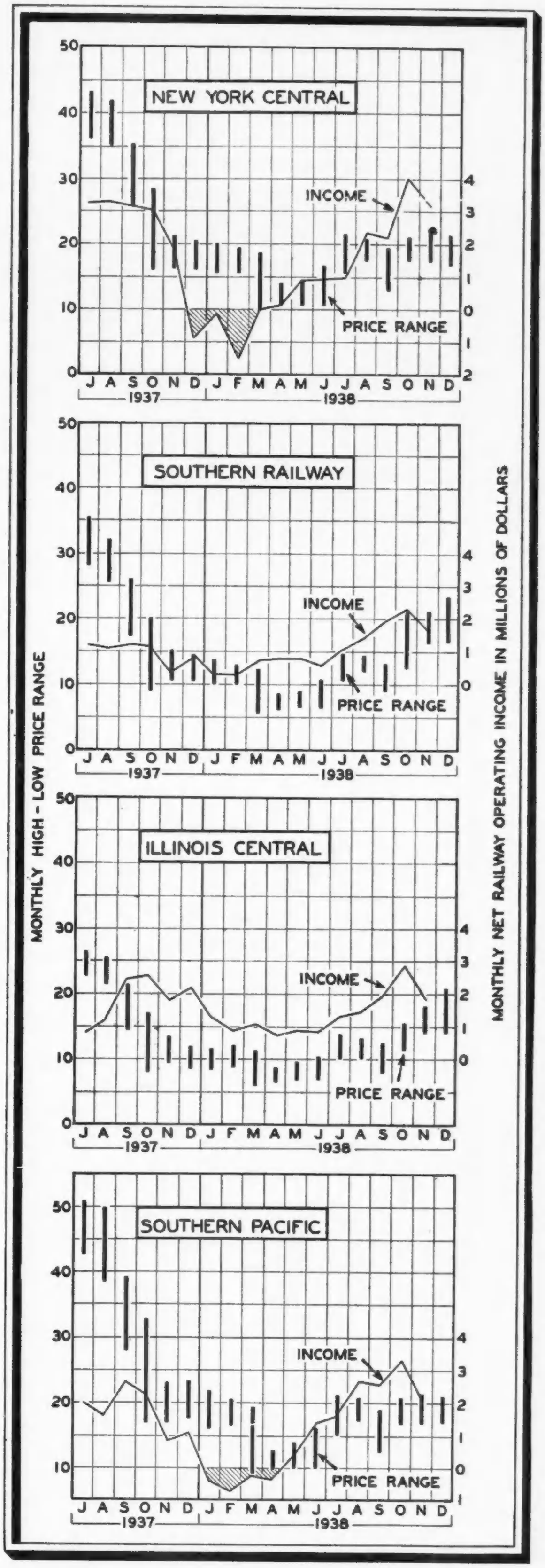
Without condemning any of the lines not mentioned, let us examine just four of those most prominent in the current market. All are selling within a dollar or two of twenty—New York Central, Illinois Central, Southern Pacific and Southern Railway. Each represents a different division of the country, a different traffic breakdown, undoubtedly varying prospects for the future in some degree. When you buy New York Central, you are buying Eastern industry plus World's Fair traffic. Southern Pacific means transcontinental business, large land holdings, the Southwest and its potentialities. Illinois Central is the north and south route to the Gulf and the expanding trade with South America. Southern Railway gives remarkably complete coverage of the industry in one whole section of the country, growing in relative importance.

Of the four, Southern Railway and Illinois Central have to date exhibited the most spectacular market action. Current prices for these two issues represent gains of approximately 300 per cent from their lows of early in 1938, even though not much more than half of their 1937 highs. Significantly, both roads are pointing to the South, tapping the regions which have the best chance of net progress industrially from cycle to cycle. Southern Railway's territory attracted more new plants, more additions to old ones in 1937 than it did in 1929. Among these were textile mills, both rayon and cotton, and a practically new industry in the use of southern pine in paper-making. The revision of basing points by the steel companies has focussed attention on such centers as Birmingham as possibly large gainers in a decentralization program. Both Southern and Illinois Central reach this important center. Illinois Central, in addition, has the most direct north and south route to the Gulf, the highway for our trade with South America.

All four stocks have very high leverage favoring them in any period of rising earnings, but Southern Railway has also been particularly fortunate in its seasonal trend. Under ordinary conditions, most of the road's profits come in the fourth quarter, least of all in the first. Illinois Central is another line which enjoys a large fourth quarter compared to the earlier months, giving an opportunity for the business pickup to gather momentum before the earning season of 1938 was past.

The leader of many a previous rail market, Southern Pacific has been comparatively sluggish in the rally from early 1938 lows. Operating figures in the red for the first four months of last year, followed by a rather unsatisfactory struggle toward covering fixed charges have been sufficient excuse for pessimism. Economies in operations and retrenchments in maintenance brought sharper gains over the previous year in the fourth quarter of 1938, but Sopac bonds are still available at large discounts and the stock has not resumed its old place in the group.

On sheer scope, though, Southern Pacific must be conceded a front rank. Its 13,000 miles of track are supplemented by bus and electric railway lines, by steamships, by a one-half ownership in the (*Please turn to page* 397)



Another Look at . . .

OWENS-ILLINOIS GLASS — HERCULES POWDER — GLENN L. MARTIN — CONTINENTAL CAN — SHERWIN-WILLIAMS

BY THE MAGAZINE OF WALL STREET STAFF

BEGUN in our issue of December 17, last, the practice of occasional checkups on the securities discussed many months previously is here continued. The purpose is deeper than to bring news up to date on individual companies—it is to emphasize the necessity of keeping interpretations up to date. Incidentally, it gives the Staff an opportunity to revise opinions once expressed and now found lacking in some way, occasionally to say "I told you so."

* * *

New fields are opening for the glass industry and Owens-Illinois Glass Co. is one of the leaders in developing and pioneering. Research has been under way for many years in some of the new uses for glass, with the implication that the profitable stage in many ventures is nearer than might be supposed. Most of the projects now in hand were known when this company was discussed at length in our issue of November 20, 1937. Glass building blocks, glass fiber put to use as a textile or as an insulating or filtering agent, all the distinct qualities of the material in strength, transparency or resistance to chemicals, heat and cold have been the field of long research.

The formation of Owens-Corning Fiberglas Corp. as a mutual enterprise by this company and the Corning Glass Works marked the transition of these fiber products from the research laboratory to the commercial field, with rapidly developing markets. Potentially, it also marks a distinct enlargement of Owens-Illinois earning power, although this must wait for proof until the major lines of bottles and other containers regain former levels. The report of the company for the twelve months ended September 30, last, showed profits of $1.91 a share, somewhat under half of those of a year earlier, and still pursuing a downtrend from the amount reported for the twelve months ended June 30. This method of reporting earnings on a twelve-month basis makes difficult the weighing of current results, but the turn very likely occurred in the quarter just passed, and future statements should record a steady comeback.

The prevailing price of 69 for Owens-Illinois is only four points higher than when we discussed it over a year ago; meanwhile the outlook for the company has if anything broadened in scope. Investigation by Government agencies of the glass industry failed to bring out any very damaging facts, but it has undoubtedly held the stock back. Continuation of present general business trends should mean substantially higher profits for Owens-Illinois Glass.

Sales and earnings point upward again for Hercules Powder. Just over a year ago (issue of November 20, 1937) Hercules Powder was discussed at length and examined for potential strength in prosperity and depression. The conclusion drawn seems as sound today as it did then: that this company must follow the typical pattern of chemicals, suffering a rather early contraction when general business slumps, but resuming its progress inevitably with any quickening of the industrial pace. Its diversification is the best guaranty of participation in the current pickup; the paper industry, automobile, furniture

Bottles undergoing final inspection at Owens-Illinois Glass plant.

and radio makers, mining and quarrying, textiles, and heavy construction are all important customers.

Bearing this out, the fourth quarter is understood to have shown a distinct and substantial gain over both the preceding one and the final quarter of 1937. Results for the full year are not by any means likely to be up to the 1937 mark, but this is due to poor comparisons for the first nine months. Barring the necessity for inventory writedowns which penalized last year's earnings, the quarter recently ended may well have shown results of as much as 70 cents a share on the common stock.

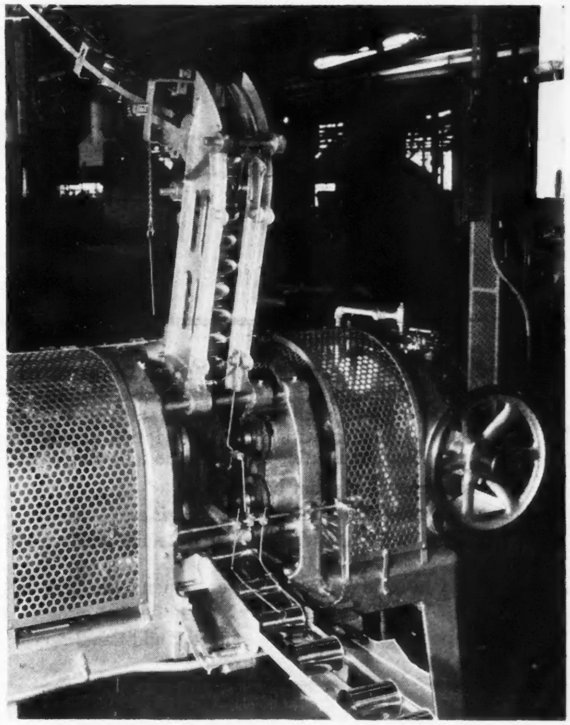
Among very recent developments the commercial production of "Staybelite" has possibilities. Hercules has found a method of hydrogenating rosin so that it is unaffected by the atmosphere, giving it many valuable new uses. Progress in the cellulose acetate field is also being registered, and other lines which have been in the promotion stage have come nearer the point of commercial importance. A million dollar contract for smokeless powder was received from the War Department last month, with more of this type undoubtedly to come.

When the stock was examined in 1937 it was selling at 122 and it is now forty points lower. However, there has since been a two-for-one split, so that stock bought a year ago has an adjusted cost of only 61. The rise since then has not been excessive and the shares must still be rated as promising for longer term investment.

Earnings have turned the corner and Continental Can now needs only satisfactory volume in the fruit and vegetable pack of the coming season to augment its improving general line can business. While the twelve months ended last September produced profits of $2.16 a share on the stock, well below the $3.01 of a year earlier, a special report as of the end of October showed that the year ending with that month had produced earnings of $2.18 a share. The slump in sales is understood to have ended at mid-year, but profits were penalized by reserves set up against the necessity of rebates to customers on lower tin plate prices, as well as by higher labor costs. Meanwhile, however, the $2.00 annual dividend rate has been covered and appears likely to continue safe.

Discussed at length in THE MAGAZINE OF WALL STREET of December 4, 1937, Continental Can was then regarded as of interest to the business-man investor not only for the income afforded but with the thought that the industry was approaching a gradual turn for the better in its fortunes. The stock was selling at 42 then, only two points below its current price; in the interim the maximum decline has been a matter of only five points. The prospects now facing the industry make this price seem far from inflated.

Glenn L. Martin earnings are up, but unfilled orders are below previous levels. For the first nine months of 1938 profits amounted to $2.28 a share on the stock then outstanding, a new record for the company. The backlog on November 1, however, was lower at $14,228,343, against $17,624,575 nine months earlier. In the first eight months of 1938, 94.8 per cent of sales were to foreign customers, reducing the business on hand in this classification to only $5,313,000, whereas it had previously comprised 62 per cent of unfilled orders. U. S. Navy orders have risen in importance to the company.



One of Continental Can Co.'s flanging machines in operation.

and with the Government's plans for increased aviation expenditures it seems probable that this relationship will continue. Generally speaking, foreign aircraft orders allow the wider profit margins.

The sale of 156,000 additional shares of stock to holders, through rights to subscribe at 20 at the rate of one for six last month strengthened the company's treasury by about $3,000,000. Some of this will be spent on a new air field, but the bulk of it will be held for future needs, including a possible demand on working capital because of large Government orders.

The remarkable record of the aviation industry during 1938 has attracted much attention and has brought into the group investment and trading funds which had hitherto remained skeptical of its future. Doubts that 1939 will continue the uptrend in volume have been almost completely dissipated by the news of the last two months. Like any other group which has risen against the trend, however, the aircraft issues run the danger of having too much expected of them in the way of immediate earnings jumps. When Glenn Martin was suggested at 14 somewhat over a year ago it was definitely in the bargain range, as events have proven; that it still is, at 35, may be open to some question.

Autumn sales exceeded last year's for Sherwin-Williams Co. At the annual meeting President Martin stated that November business was 6.3 per cent above November, 1937, bringing the quarter ending in that month also to a higher level. When this company was discussed in our issue of November 20, 1937, it was pointed out that the paint business had already begun to lose ground, but that was given as one excellent reason why the stock was selling (*Please turn to page* 398)

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
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Shell Union Oil Corp.

Am I acting wisely in holding 150 shares of Shell Union Oil common which I bought at 30 last year? Is this stock now in a much stronger position, to reflect improvement in earnings and advance substantially marketwise? What are the dividend prospects of the common?—G. E., Baltimore, Maryland.

During 1938, Shell Union Oil Corp. suffered as did most oil companies, from restriction in profit margins. Hence, earnings in the latest report—for the nine months ended September 30, 1938, — were below those of a year earlier. For that interval, only 61 cents a common share was recorded against $1.11 a year before. It is estimated that full year profits will be in the neighborhood of 75 cents per common share. Dividends of 70 cents a share were paid which is in line with the company's policy of paying the major portion of earnings out in the way of dividends. Shell Union is a completely integrated unit, operations extending from oil wells to marketing outlets. Constant increases in operating efficiency and strengthening of its marketing division has led the company to a fore ranking place in the industry. Early in October, crude and refined prices were reduced, thus indicating that fourth quarter profits will continue the decline registered in the other three quarters. As we more or less expect a continuation of these unsatisfactory prices, it is unlikely that earnings can register any substantial uptrend during the early months of this year. In any event, Shell's well entrenched position in the industry, its strong financial position and the leverage enjoyed by the common shares leads us to believe that over a longer period, the common equity would prove quite profitable to you both as an income producer and a price appreciation medium.

Loew's, Inc.

Would you recommend holding 50 shares of Loew's common for which I paid 84⅞? I have been worried by the recent weakness in the stock caused presumably by the stockholders' suits filed against the management. Is this effect only temporary offering an opportunity for me to average on my investment?—S. F., Des Moines, Ia.

Several factors which were not heretofore adverse prevailed during the past fiscal term and were probably responsible for the drop in Loew's earnings. At this writing, it is expected that earnings for the fiscal term ended August 31, 1938, were around $5.75 per share which would compare with $8.47 per share registered during the preceding fiscal term. Among the unfavorable factors, of course, was the lower box office attendance due to decreased consumer purchasing power. Moreover, the combination of substantially heavier studio costs and the amortization of several expensive features, also took an abnormally heavy toll of earnings. These same factors may have a continuing adverse effect upon near term earnings, but with costs being gradually brought into closer control, the time does not appear far distant when the company's profits will begin to show a turn for the better. Increased employment and rising attendance should also be reflected in better earnings. It must be remembered, however, that the company derives a large portion of its revenues from its foreign distribution. Thus the unsettled political conditions abroad, together with the tendency of foreign countries to encourage growth of motion picture production within their own borders both by direct subsidy and restricting the American products by quota, produce a factor of uncertainty in this situation. Over the longer term, however, the able management of Loew's is expected to cope with these situations. Over the past years, this company has led other companies as well as the industry as a whole—on an earnings basis. Loew's aim has always been to concentrate on popular stars and excellent story material, and these policies have proved highly profitable to them over a long period. While the stockholders' suit recently instigated by two stockholders seeking an accounting and a return of profits derived from stock options did did have an adverse market effect upon the company's shares, the chances are that this may prove more or less temporary. In our estimation, the subject shares are worthy of consideration on an income basis as well as for fair chances for price appreciation. As-

sumption of a further commitment, however, depends upon the proportionate representation of your holdings in respect to the remainder of your portfolio.

American Brake Shoe & Foundry Co.

Do you consider that American Brake Shoe common has exceptional price appreciation possibilities over the coming months? To what extent will earnings benefit from gains in the automotive and miscellaneous heavy industries as well as improved railroad demand? Shall I hold 100 shares which cost 75½?—O. Y., Mobile, Alabama.

As dividends on American Brake Shoe & Foundry have coincided closely with per share earnings, the $1 per common share paid last year may be taken as an indication of full 1938 profits. We therefore expect that earnings will be in the neighborhood of $1.15 per share. For the initial nine months of 1938, a profit of 71 cents a share was recorded. During 1937, $4.01 per share was reported. It is anticipated that for 1939, a betterment will take place in railroad prospects accompanied by increased expenditures for maintenance and equipment. Thus demand for brake shoes should increase proportionately. However, track accessory sales will be somewhat slower than the other divisions. If 1939 automobile production reaches expected proportions the subsidiary, American Brakeblok Co., should contribute heavily to the parent company's profits. Given any sustained improvement in the general business picture, there is no reason to believe that American Brake Shoe's earnings could not reverse the downward trend quite quickly. The shares, however, must be given a speculative rating, although we do believe that they have excellent possibilities for price appreciation if you are willing to assume a longer term outlook.

American Snuff Co.

Do you regard American Snuff common as a sound medium for income and capital growth at this time? Is the demand for snuff holding? Can I continue to look for the regular $3 annual dividend plus extras? I would appreciate your analysis of this stock.—V. F., Washington, D. C.

In line with other companies situated in this field, American Snuff's earning record over a long period of years has been characterized by its stability. For the year ended December 31, 1937 (the company publishes no interim reports), a profit of $3.12 a share was recorded on the common issue against $3.32 a share a year before. It is anticipated that earnings for the full year 1938 were in the same range. American Snuff is among the three principal organizations in the snuff manufacturing business and has built up a wide consumer demand for such brands as "Garrett," "Honest" and "Dental," particularly in the South where snuff consumption is heaviest. The company is also fortunate in that it does not have to spend large sums for promotional purposes and it supplies a well established and steady demand for its products. Moreover, production costs of the concern have tended downward over most recent months. This has been caused primarily by lower tobacco prices. The capital structure of American Snuff is most conservative, there being no funded debt, and only 35,939 shares of $6 preferred preceding the 434,100 shares of common outstanding. Financial position of the company remains exceptionally strong. These features combined, tend to make the dividend secure. Thus, for the investor who is looking for a high rate of yield which is safe, regardless of market conditions, the shares of American Snuff are recommended.

American Machine & Foundry Co.

Would you advise me to retain 100 shares of American Machine & Foundry bought at 29⅛? Will improvement in cigarette and cigar machines stimulate replacement sales? Are patent rights secure? What are its near-term earnings and dividend possibilities? —M. J. B., Cincinnati, O.

Although American Machine & Foundry Co. turns out practically all of the machinery on which cigarettes and cigars are manufactured in the United States, the company is gradually lessening its dependence upon the tobacco industry. Until the results of these activities are more apparent, however, American Machine & Foundry must still rely upon the tobacco companies for the bulk of its profits. The new developments have been directed at the baking industry where ample opportunity for mechanization of processes exist. Not only does the company offer bread-wrapping machinery but its list includes equipment for ovens, mixers, conveyors, etc. It is interesting to point out that both the baking and tobacco industries are characterized by stableness of earnings. For the six months ended June 30, 1938 (latest available), the company showed a profit of 50 cents a share on the 1,000,000 shares of common stock—sole capitalization—against a profit of 59 cents a share in the comparable period of 1937. For the full year of 1938, it is estimated that profits will be around 80 cents a share against $1.04 a year earlier. The company is constantly in search for improvement on their old machines and for new products. The latest developed is the tobacco stripping machine which may contribute sizably to future profits. It must, of course, be realized that the shares are somewhat devoid of dynamic qualities, but for the present there appears no urgent need to disturb commitments.

New York, Chicago & St. Louis R.R.

Owning 150 shares of New York, Chicago & St. Louis common, which I purchased at 62 in 1937, I am anxious to know how your security analysts are disposed towards this stock. Do you counsel retention of it as a promising speculation?—R. T., Chicago, Ill.

As you doubtless realize, the common shares of "Nickel Plate" must be placed in a highly speculative category and any decision as to the advisability of their continued retention must make ample allowance for the uncertainties present not only in the outlook for the road but for the many complexities and problems with which the entire railroad industry is fraught. With a considerable majority of the holders of the road's 6% notes which matured last October accepting the proffered three-year extension, it appears that Nickel Plate has avoided insolvency

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and all its adverse implications. At last reports less than $1,200,000 of the notes remained undeposited and doubtless these will be redeemed or purchased in the open market. Operations of the road are closely geared to industrial activity in the Great Lakes region which it serves, and recently both gross revenues and net operating income have recorded encouraging gains in response to increased manufacturing activity, notably automobile production and shipments. Moreover, the prospects are that further gains will be registered in the initial months of 1939. It is expected for the full 1938 year the road will show a loss, after fixed charges, of around $1,500,000, indicating a coverage of about 80% of fixed charges. The railroad problem will be prominent among the considerations before the new Congress and in some quarters hopes are held out that definite progress will be made toward the enactment of constructive legislation in the carriers' favor. On the basis of the latter prospect, as well as the possibility of continued business improvement in the region served by Nickel Plate, holders of the road's common stock might be afforded a more effective opportunity to liquidate commitments during the next several months.

Interlake Iron Corp.

Do your analysts advise further retention of 200 Interlake Iron, bought at 27⅛, as a good stock for intermediate term profit? I understand that rates of coke and higher prices for pig iron are expanding profit margins for this leading merchant ironmaker. Is a marked pick-up in earnings imminent? —D. T., Chicago, Ill.

Profit margins of Interlake Iron remain restricted, and as a result, a deficit of 36 cents per share of capital stock was recorded for the nine months ended September 30, 1938. This compares with a profit of 89 cents a share sustained during the like period of 1937. However, higher shipments were realized even though they were offset by lower pig-iron prices. Moreover, during the fourth quarter of 1938, a good volume of pig-iron orders was realized, as consumers bought in anticipation of the $1 a ton increase in price recently placed into effect. As recovery in general business makes itself felt, takings of coke should improve as industrial concerns make purchases for a higher level of business activity. The iron manufactured by Interlake is taken directly by foundries which serve such lines as automobile, agricultural equipment, railroad equipment and building supply trades. Thus, the betterment realized in all of those fields improves the longer term outlook. While we anticipate fourth quarter results the best for 1938, it is unlikely that they will be sufficiently good to remove the deficit already recorded for the initial nine months. Although a strong financial position is maintained by Interlake, there is little likelihood that dividends will be resumed over the medium term. In any event, we believe that the stock has taken fully into consideration the adverse factors present and recommend retention of your holdings on a speculative basis.

Borden Co.

What are the speculative prospects of Borden common? I have 100 shares at 27 and wonder if I should continue to hold in the hope of recovering my loss. Is the current liberal dividend policy to be maintained? Will you please write me in detail?—O. T., Syracuse, N. Y.

On a price speculation basis, the shares of Borden lack dynamic possibilities although some appreciation is possible from present depressed levels. The company is engaged in the relatively stable business of dairy products which does not allow a wide fluctuation in earnings, thus tending to retard the shares marketwise. However, finances of the company are in excellent shape and the 4,396,704 shares of common stock represent the sole capitalization. Accordingly, there is no immediate reason to believe that the ample dividend rate will not continue, although resumption of the full $1.60 rate will await a betterment in the entire situation. The recent improvement in general business has brought about increases in consumer purchasing power which is a constructive factor in weighing the near term outlook of the company. For the six months ended June 30, 1938, a profit of 64 cents a share was recorded. This compares with earnings of 66 cents per share sustained during the like interval a year earlier. Naturally, any attempts to settle the unsatisfactory price situation in the metropolitan New York area will aid future operations of Borden. However, the situation prevalent in this section leaves a lot to be desired and will probably continue to be an unsettling factor. However, competition in the fluid milk division will be offset to some degree by the more profitable ice cream and cheese division. Therefore, taking everything into consideration, the outlook is for a gradual improvement in earnings over early coming months. Hence, while you cannot look for much in the way of market appreciation, the sound income afforded seems worthy of consideration and retention is advised.

R. J. Reynolds Tobacco Co.

As an owner of 200 shares of Reynolds Tobacco "B" at 65, I would appreciate your appraisal of it as an investment for income and higher market prices. Are earnings on the uptrend so that annual dividend payments will be in the neighborhood of $3? What is the financial status of the company at this time?—L. H., New York, N. Y.

During 1938, R. J. Reynolds exercised a close control over production and promotional costs and it is expected that earnings for the full year were in the neighborhood of $2.85 a share. This showing is extremely good when it is considered that during the major portion of the year, consumer purchasing power was at a low ebb. Moreover, the company's leading brand "Camels" has maintained its position as a leader, and the year will undoubtedly close with R. J. Reynolds at the head of the cigarette field. Currently, the picture has improved. Lower leaf tobacco costs plus an improvement in general business leads to the belief that profit margins can widen a little over the coming period. Of course, in considering this equity, sight must not be lost of the keen competition experienced in the industry. Nevertheless, the past record of Reynolds certainly commands consideration by both the investor and those interested in price appreciation. Moreover, the company's proven ability to meet competition from outstanding brands indicates that no adverse affects will be felt by the introduction of new ones. The dividend policy of the company provides for annual payment spread over five instalments, the final payment for the year being dependent upon the amount of earnings undistributed in the regular four quarterly dividends.

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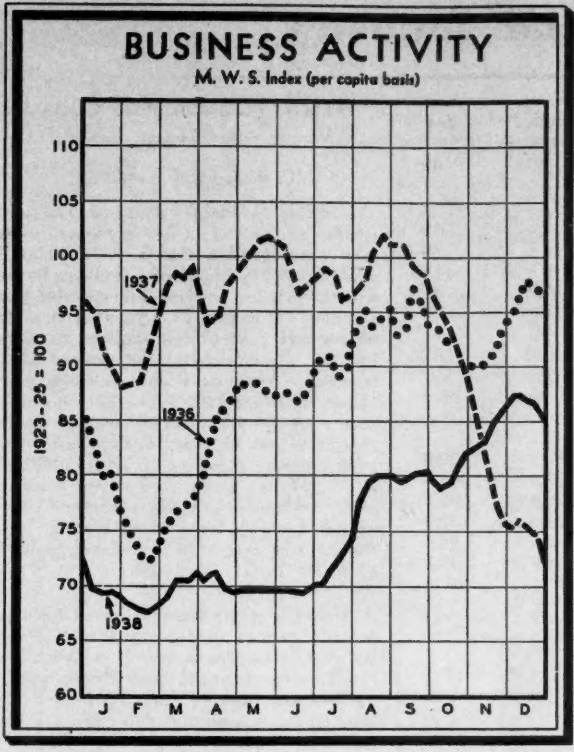

CONCLUSIONS

INDUSTRY—Rail outlook brightens.

TRADE—Holiday retail trade well above last year. Inventories low.

COMMODITIES—Modest price rise expected.

MONEY AND CREDIT—Outlook for new financing brightens.

The Business Analyst

The Nation's per capita **Business Activity** has held notably steady during the past few weeks despite unusually widespread curtailment of production for purposes of reducing year-end inventories. During December, the average was about 87.3, compared with 84.2 in November and 75.6 for December, 1937. The 4th quarter averaged 84.2, against 82.4 for the corresponding period of 1937. Per capita business activity for the 1938 calendar year (known as the physical volume of **National Income Produced**) amounted to 75.2% of the 1923-5 average, which was 19.5% less than in 1937. **National Income Produced** in 1938, measured in dollars and without compensation for population growth, was about 22.5% lower than in 1937, as computed from our business activity index.

* * *

National Income Paid Out during November amounted to $5,298,000,000, only 2% below last year, compared with a cumulative decrease of 7% for 11 months. Some conception of the enormous depletion of industrial capital during the recent business slump may be gained by comparing the 1938 decline of only 7% in **Income Paid Out** with the 22.5% drop in **Income Produced. Farm Income,** including benefit payments, was only 1% below last

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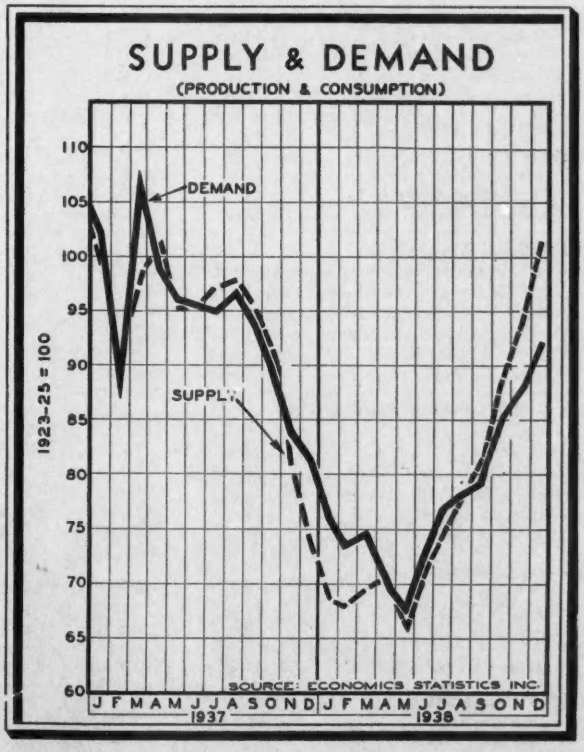

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Nov.	103	96	88
INDEX OF PRODUCTION AND TRADE (b)	Nov.	84	81	82
Production	Nov.	83	79	78
Durable Goods	Nov.	69	63	64
Non-durable Goods	Nov.	92	90	85
Primary Distribution	Nov.	77	76	82
Distribution to Consumers	Nov.	93	90	91
Miscellaneous Services	Nov.	79	77	87
WHOLESALE PRICES (h)	Nov.	77.5	77.6	83.3
COST OF LIVING (d)				
All Items	Nov.	85.6	85.8	89.0
Food	Nov.	79.5	79.8	85.4
Housing	Nov.	86.4	86.6	89.1
Clothing	Nov.	73.2	73.2	78.3
Fuel and Light	Nov.	85.9	85.6	85.8
Sundries	Nov.	96.8	96.8	97.8
Purchasing Value of Dollar	Nov.	116.8	116.6	112.4
NATIONAL INCOME (cm)†	Nov.	$5,298	$5,654	$5,405
CASH FARM INCOME†				
Farm Marketing	Nov.	$660	$777	$713
Including Gov't Payments	Nov.	708	839	716
Total Income	1938	7,625(pl)	......	8,600
Prices Received by Farmers (ee)	Nov.	94	95	107
Prices Paid by Farmers (ee)	Nov.	121	121	127
Ratio: Received to Paid (ee)	Nov.	78	79	84
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	82.1	79.1	100.8
Non-durable Goods	Nov.	98.6	99.3	101.4
FACTORY PAYROLLS (f)	Nov.	84.1	83.9	92.9
RETAIL TRADE				
Department Store Sales (f)	Nov.	88	84	91
Chain Store Sales (g)	Nov.	109.5	108.0	110.6
Variety Store Sales (g)	Nov.	115.4	113.2	101.0
Rural Retail Sales (j)	Nov.	119.5	115.5	118.8
Retail Prices (s) as of	Dec. 1	88.9	89.0	94.5
FOREIGN TRADE				
Merchandise Exports†	Nov.	$252.2	$277.9	$314.7
Cumulative Year's Total†	Nov.	2,825.5	......	3,025.8
Merchandise Imports†	Nov.	176.2	178.0	223.1
Cumulative Year's Total†	Nov.	1,789.0	......	2,874.8
RAILROAD EARNINGS				
Total Operating Revenues★	1st 11 ms.	$3,247,155	......	$3,865,748
Total Operating Expenditures★	1st 11 ms.	2,489,525	......	2,875,710
Taxes★	1st 11 ms.	314,285	......	304,604
Net Rwy. Operating Income★	1st 11 ms.	323,352	......	564,209
Operating Ratio %	1st 11 ms.	76.67	......	74.39
Rate of Return %	1st 11 ms.	1.34	......	2.34
BUILDING Contract Awards (k)				
Total†	Nov.	$301.7	$357.7	$198.4
Residential†	Nov.	95.3	112.7	59.9
Public Works and Utility†	Nov.	90.4	114.0	59.2
Non-Residential†	Nov.	116.0	131.0	79.3
Publicly Financed†	Nov.	178.9	203.4	92.9
Privately Financed†	Nov.	122.8	154.3	105.5
Building Permits (c)				
214 Cities†	Nov.	$67.5	$77.0	$50.2
New York City†	Nov.	22.2	20.1	19.4
Total, U. S.†	Nov.	89.7	97.1	69.6
Engineering Contracts (En)†	Dec.	$339.3	$217.0	$199.0
CONSTRUCTION COST INDEX (En) 1913—100	Dec. 1	234.89	234.40	241.05

PRESENT POSITION AND OUTLOOK

(Continued from page 385)

year during November, compared with an 11-months' decrease of 11%. In November, **factory employment,** though 9.4% below last year, was 1.2% ahead of October. **Payrolls** were 9.7% below last year; with **durable goods** reporting a drop of over 17%, while **non-durable goods'** payrolls were about on a level with last year. According to estimates by the National Industrial Conference Board, unemployment in November amounted to 9,211,000. Official reports show that 4,856,000 of this total were employed on various forms of Government work relief projects—a gain of 42,000 over October, and 1,804,000 greater than during November, 1937. Allowing for a 4% recession in the **cost of living** during the past 12 months, factory weekly real wages in November were 5% above last year.

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According to the late:t available figures, **raw material prices** are currently about 1% below last year, while **prices** at both **wholesale** and **retail** average about 6% lower. **Prices received by farmers** are down about 8% from last year. World prices in terms of gold are now at the lowest average level in 30 years, according to the new General Motors' Index. Mail order catalogue prices in the just issued mid-winter sales flyers are 5% to 10% lower than a year ago. For the month of November, manufacturers' sales, led by a 25.5% jump in boots and **shoes**, increased 3.6% over last year; but **wholesale trade** declined about 2%; despite a 26.4% increase in **shoe** sales. **Department store sales** during the four weeks ended Dec. 24 were 3% above the like period of 1937 in dollar totals, and gained nearly 10% in unit quanity, thereby exceeding earlier expectations. This is a rather remarkable showing in view of the circumstance that national income received by individuals during November was still 2% below last year.

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With **railroad carloadings** and gross revenues running only a little better than last year, n. o. i. for November was up about 54%. Class I carriers had a net deficit of about $125,000,000 last year, after charges. This compares with net income of $98,000,000 in 1937. Considerable improvement should be shown during 1939 if the present business recovery is extended, as now expected. The outlook will be still brighter should Congress adopt a number of constructive suggestions submitted recently by the President's railroad program committee.

* * *

Building permits granted during November were 43% above the previous year, compared with an 11-months' rise of only 3.8%. **Residential permits** were up 67%, against a 16% gain for 11 months. **Engineering construction** awards for 1938 were about 15% above 1937; but private awards fell 28%. During the week ended Dec. 24, mortgages selected for appraisal by the FHA were 200% above the like week of 1937. Most of the money will stimulate building in early spring, and some fear is expressed that dangerous boom conditions may result than from the impact of a rapidly expanding demand with a static labor supply in the building trades.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	3,143	3,572	1,473
Pig Iron Production in tons★	Dec.	2,202	2,270	1,490
Shipments, U. S. Steel in tons★	Nov.	680	663	587
AUTOMOBILES				
Production				
Cars and Trucks, U. S. & Canada	Nov.	390,351	215,296	376,629
Total 1st 11 Months	1938	2,248,882	......	4,669,088
Retail Sales				
Passenger Cars, U. S. (p)	Nov.	196,000(pl)	119,053	196,485
Trucks, U. S. (p)	Nov.	22,200(pl)	19,589	26,924
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Nov.	323.7	327.7	381.6
Shipments, U. S. & Canada★ (tons)	Nov.	340.7	327.3	418.7
Mill Stocks, U. S. & Canada★ (tons)	Nov. 30	197.9	214.9	71.8
LIQUOR (Whisky)				
Production, Gals.★	Nov.	10,562	8,119	9,867
Withdrawn, Gals.★	Nov.	9,571	8,173	9,571
Stocks, Gals.★	Nov.	466,176	466,376	449,903
GENERAL				
Machine Tool Orders (f)	Nov.	112.2	118.1	127.7
Railway Equipment Orders (Ry)				
Locomotive	Dec.	10	3	28
Freight Cars	Dec.	3,639	132	3,674
Passenger Cars	Dec.	80	32	None
Cigarette Production†	Nov.	13,506	13,264	12,786
Bituminous Coal Production★ (tons)	Dec.	36,230	36,110	37,122
Boot and Shoe Production Prs.★	Nov.	27,500(pl)	34,616	21,041
Portland Cement Shipments★	Nov.	8,573	12,357	8,188
Commercial Failures (c)	Nov.	984	999	842

PRESENT POSITION AND OUTLOOK

In spite of bad weather, domestic sales of **cars** and **trucks** during December were about 30% above December, 1937, and approximated the 269,000 units sold in November. Production for January is estimated at 325,000. New car inventories at the year-end were 40% under a year earlier, while used car inventories were at the lowest level for that date in many years.

* * *

Whisky production during November was 7% greater than for the like month of 1937. Deliveries increased 5%, leaving stocks at the end of November about 3% higher than a year earlier. **Cigarette** deliveries during November were the heaviest for any like month on record, and nearly 6% above the same month in 1937 compared with an 11-months' gain of only 1%. Cigar deliveries during November were nearly 5% ahead of the like month in 1937, despite a noticeable decline in the higher priced brands.

* * *

The **bituminous coal** industry, operating at hardly more than 50% of capacity, sustained a net loss from operations last year. Total production during 1938 was 23% below 1937.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY	Dec. 31	85.4	87.0	72.6
ELEC. POWER OUTPUT K.W.H.†	Dec. 31	2,121	2,363	1,998
CARLOADINGS				
Total	Dec. 31	499,895	574,462	454,906
Grain	Dec. 31	25,897	30,724	28,662
Coal	Dec. 31	131,764	133,799	104,328
Forest Products	Dec. 31	17,945	27,612	16,626
Manufacturing & Miscellaneous	Dec. 31	185,207	213,793	169,344
L. C. L. Mdse	Dec. 31	115,079	140,900	115,460
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 3	20.61	20.61	23.25
Scrap $ per ton (m)	Jan. 3	14.92	14.92	14.00
Finished c per lb. (m)	Jan. 3	2.286	2.286	2.512
STEEL OPERATIONS				
% of Capacity week ended (m)	Jan. 7	52.0	40.0	28.5
CAPITAL GOODS ACTIVITY (m) week ended	Dec. 31	75.6	81.3	59.6
PETROLEUM				
Average Daily Production bbls.★	Dec. 31	3,201	3,450	3,437
Crude Runs to Stills Avg. bbls.★	Dec. 31	3.115	3,105	3,173
Total Gasoline Stocks bbls.★	Dec. 31	71,695	69,959	76,990
Gas and Fuel Oil Stocks bbls.★	Dec. 31	144,823	146,755	117,585
Crude—Mid-Cont. $ per bbl	Jan. 7	1.02	1.02	1.27
Gasoline—Refinery $ per gal	Jan. 7	.05⅞	.06⅛	.07

PRESENT POSITION AND OUTLOOK

Electric power output is running currently about 6% above last year. Final quarter earnings of the industry were approximately on a level with the like period in 1937. Revenues of the gas industry last year were 1.8% below 1937—manufactured gas showing a 2.2% gain, while natural gas revenues declined 5.1%. Although peace now reigns in the electric power industry, except for the TVA controversy, little expansion in capital expenditures is expected this year, owing to uncertainties as to the ultimate allocation of subsidiaries in carrying out the so-called "death sentence."

* * *

Steel operations are expected to recover within a few weeks from their year-end decline and rise to a new recovery peak during the current quarter. Ingot production last year was around 28,000,000 gross tons, compared with 49,504,-000 in 1937. 61% of last year's total output was packed into the second half.

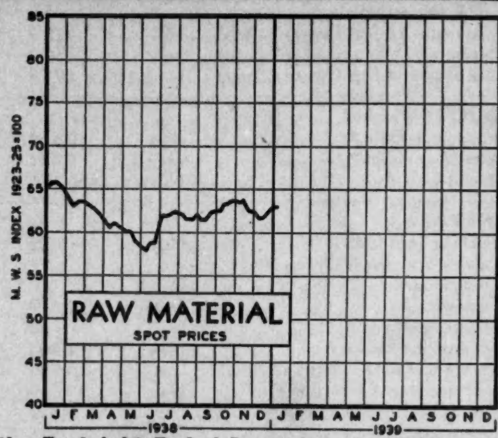
* * *

Owing to overproduction and lower prices, the **oil** industry last year earned only about half as much as in 1937. While output in the three mid-continent oil states is now well under control, California and smaller producing areas remain recalcitrant; so that the new year opens with a still uncertain price outlook.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age.

Trend of Commodities

Continued firm to moderately higher commodity prices are forecast for the first quarter of 1939. Allowance, of course, must be made for such unpredictable factors as inflation psychology or the outbreak of war, but on the basis of such purely fundamental factors, as supply and demand, prices of industrial commodities, at least, promise to display the stability or gradual upturn essential to industrial planning and forward commitments. The closing months of 1938 were noteworthy for the steady reduction in burdensome stocks of many commodities, accompanied by the gradual synchronization of production with demand. During the same period supplies in the hands of processors and wholesalers were substantially reduced and if the promise of increasing business activity in the first quarter is realized commodities will have the benefit of necessitous and substantial replacement orders.



Changes in Major Commodity Price Groups for the Fortnight Ended December 31, 1938

Farm Products	68.3	up 0.9	Metals	94.8	no change
Foods	72.5	down 0.1	Building Material	89.2	no change
Hides and Leather	93.6	down 0.2	Chemical	76.3	no change
Textiles	65.3	up 0.1	Housefurnishings	87.6	no change
Fuel and Lighting	73.7	down 0.4	Miscellaneous	73.0	up 0.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Jan. 7	8.41	8.43	8.58
May	Jan. 7	8.16	8.23	8.66
Spot	Jan. 7	8.91	8.83	8.58
(In bales 000's)				
Visible Supply, World	Jan. 6	9,603	9,652	9,103
Takings, World, wk. end	Jan. 6	320	296	338
Total Takings, season Aug. 1 to	Jan. 6	8,188	7,868	8,389
Consumption, U. S.	Nov.	596	543	485
Exports, wk. end	Jan. 6	52	59	176
Total Exports, season Aug. 1 to	Jan. 6	1,924	1,872	3,404
Government Crop Est. (final)	Dec. 1	12,008	......	18,946
Active Spindles (000's)	Nov.	22,449	22,114	22,778
WHEAT				
Price cents per bu. Chi. closing				
May	Jan. 7	69⅜	69	96¼
July	Jan. 7	69½	68⅞	90
Exports bu. (000's) since July 1 to	Dec. 31	84,244	83,129	71,541
Exports bu. (000's) wk. end	Dec. 31	1,115	952	1,687
Visible Supply bu. (000's) as of	Dec. 31	114,672	116,522	86,863
Gov't Crop Est. bu. (000's) (final)	Dec. 1	930,801	......	873,993
CORN				
Price cents per bu. Chi. closing				
May	Jan. 7	53⅛	52⅞	62¾
July	Jan. 7	54	53⅞	62½
Exports bu. (000's) since July 1 to	Dec. 31	52,138	3851,67	6,517
Visible Supply bu. (000's) as of	Dec. 31	48,806	47,719	34,803
Gov't Crop Est. bu. (000's) (final)	Dec. 1	2,480,958	......	2,644,995

PRESENT POSITION AND OUTLOOK

Cotton. Cotton prospects at this time appear almost wholly dependent upon the Government. What disposition the Government may make of the 10,000,000 bales now held in the loan account there is no way of knowing. Apparently the Government is without authority to sell this loan cotton. Ways and means to meet the problem of loans, crop reduction and the drastic decline in export shipments were recently discussed at a meeting of producers and Agricultural Department officials. Nothing was announced although it is known that Secretary Wallace favors smaller loans and larger subsidies.

* * *

Wheat. Domestic prices at the close of the past week came under the influence of foreign markets and reaction ruled. Profit-taking, in the wake of the recent rise, was also a factor in lowering quotations. There has been little or no improvement in the unfavorable growing conditions which thus far have retarded the winter wheat crop. The markets will shortly feel the influence of the offering of a bumper Argentine crop.

* * *

Corn. Some late improvement in the growing conditions of the Argentine crop depressed domestic prices. AAA has set the 1939 commercial acreage at 41,239,659 acres, an increase of 744,122 acres over 1938. Slight change in near term prices likely.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Jan. 7	11.25	11.25	10.50
Export c. i. f.	Jan. 7	10.50	10.45	10.30
Refined Prod., Domestic (tons)	Nov.	177,810	167,225	185,270
Refined Del., Domestic (tons)	Nov.	177,984	199,968	154,588
Refined Stocks, Domestic (tons)	Nov. 30	424,537	424,711	413,846
Refined Prod., World (tons)	Nov.	66,746	56,824	75,791
Refined Del., World (tons)	Nov.	51,297	69,827	33,892
Refined Stocks, World (tons)	Nov. 30	269,488	267,299	221,676
TIN				
Price cents per lb., N. Y.	Jan. 7	46.85	46.55	42.00
Tin Plate, price $ per box	Jan. 7	5.00	5.00	5.35
World Visible Supply as of†	Nov. 30	30,598	31,539	24,389
U. S. Deliveries†	Dec.	3,400	3,535	5,020
U. S. Visible Supply as of†	Nov. 30	5,060	4,500	5,285
LEAD				
Price cents per lb., N. Y.	Jan. 7	4.85	4.85	4.85
U. S. Production (tons)	Nov.	39,800	31,843	46,796
U. S. Shipments (tons)	Nov.	42,032	45,726	33,853
Stocks (tons) U. S., as of	Nov. 30	115,236	117,476	113,573
ZINC				
Price cents per lb., St. Louis	Jan. 7	4.50	4.50	5.00
U. S. Production (tons)	Dec.	44,825	40,343	51,787
U. S. Shipments (tons)	Dec.	38,999	43,693	29,545
Stocks (tons) U. S., as of	Dec. 31	126,604	120,778	64,776
SILK				
Price $ per lb. Japan xx crack	Jan. 7	1.83	1.84½	1.56
Mill Dels. U. S. (bales), season to	Nov. 30	187,171	......	169,079
Mill Deliveries U. S. (bales)	Nov.	41,599	35,631	31,749
Visible Stocks N. Y. (bales) as of	Nov. 30	46,218	43,811	45,424
Visible Stocks, World (bales) as of	Nov. 30	150,718	151,311	156,724
RAYON (Yarn)				
Price cents per lb	Jan. 7	51.0	51.0	60.0
Consumption (a)	Nov.	21.0	24.5	9.4
Stocks (a)	Nov. 30	39.7	35.8	44.5
WOOL				
Price cents per lb. tops	Jan. 7	85.0	85.0	86.0
HIDES				
Price cents per lb. No. 1 Packer	Jan. 7	12.0	12.0	10.5
Visible Stocks (000's) (b) as of	Nov. 1	13,414	13,244	14,831
No. of Mos. Supply as of	Nov. 1	7.1	6.9	8.6
RUBBER				
Price cents per lb	Jan. 7	16.12	16.38	14.37
Imports, U. S.†	Nov.	31,054	34,496	56,302
Consumption, U. S.†	Nov.	46,048	40,333	34,025
Stocks, U. S. as of†	Nov. 30	254,318	269,937	222,707
Tire Production (000's)	Nov.	4,117	4,134	3,120
Tire Shipments (000's)	Nov.	4,442	4,144	3,777
Tire Inventory (000's) as of	Nov. 30	7,924	8,237	10,963
COFFEE				
Price cents per lb. (c)	Jan. 7	7.50	7.50	8.75
Imports (bags 000's)	Dec.	1,255	1,213	......
Imports, season to	Dec. 31	6,915	......	5,238
U. S. Visible Supply (bags 000's)	Jan. 1	1,558	1,522	1,209
SUGAR				
Price cents per lb.				
Domestic No. 3 Mar.	Jan. 7	1.88	1.92	2.28
Duty free delivered	Jan. 7	2.80	2.85	3.20
Refined (Immediate Shipment)	Jan. 7	4.30-4.45	4.30-4.45	4.75
U. S. Deliveries (000's)*	1st 11 mos.	5,979	......	6,140
U. S. Stocks (f) (000's)* as of	Nov. 30	673	......	579

PRESENT POSITION AND OUTLOOK

Copper. The spread between domestic and foreign copper prices has narrowed somewhat, leading to the hope that it will not be necessary to cut domestic prices. Demand has been dull, apparently reflecting the attitude of buyers in waiting to see whether or not prices would be cut. Recently sales in the outside market have been more active and with consumers' inventories substantially depleted considerable buying might be expected to materialize once confidence in the price structure is restored.

* * *

Tin. World visible supplies increased 611 tons in December, bringing the total increase for the year up to 1,011 tons. Domestic deliveries in December were the smallest of any month in 1938. Activities of the Buffer Pool have sustained prices in the face of a rather restricted demand in recent sessions.

* * *

Lead. Prices continue unchanged and recent demand has been mostly of the hand-to-mouth variety. December deliveries have been estimated between 33,000 and 35,000 tons and a fairly good gain is anticipated in January.

* * *

Zinc. Although holiday influences were reflected in sharply lower galvanized activity, demand has held up fairly well, with shipments in the closing week of 1938 rising sharply to 5,309 tons. Prices, however, are unlikely to move higher unless foreign quotations are raised.

* * *

Silk. December deliveries registered a gain of 40% over deliveries in December 1937. Total domestic consumption for the full 1938 year, however, was again lower for the third successive year. The loss would have been more marked had it not been for the rising trend of consumption in the last five months.

* * *

Rayon. Yarn sales last year are expected to show a slight gain over 1937. The record breaking shipments in the third quarter and the gain in the fourth quarter over the same period of 1937 were sufficient to offset the severe slump in the first six months last year.

* * *

Hides. Favored by a strong statistical position and the prospect of increased shoe production in the near future, hide prices may work somewhat higher.

* * *

Rubber. Domestic consumption of crude rubber in the first quarter is being estimated at 150,000 tons, which would compare with less than 84,000 tons in the first quarter of 1938. World stocks at the end of December were probably further reduced.

* * *

Coffee. U. S. imports last year were the largest in the history of the coffee industry. Consumption was at the rate of 14.6 pounds per capita, a gain of a full pound over 1937.

* * *

Sugar. Refined prices were weak and general reductions are foreshadowed. Despite strong opposition to the cut in Cuban sugar duties at the recent hearings in Washington the general belief is the reduction will go through. An announcement will probably be made early in February.

(a)—Million pounds. (c)—Santos No. 4 N. Y. (e)—1937 Harvest. (f)—Refiners' stocks of raw and refined. †—Long tons. *—Short tons.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Jan. 7	1¼%	1¼%	1¼%
Prime Commercial Paper	Jan. 7	⅝-1%	⅝-1%	1%
Call Money	Jan. 7	1%	1%	1%
Re-discount Rate, N. Y.	Jan. 7	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Dec. 24	$2,731	$2,904	$2,211
Cumulative year's total to	Dec. 24	118,601	......	134,629
Bank Clearings, N. Y.	Dec. 24	4,022	4,731	3,199
Cumulative year's total to	Dec. 24	164,966	......	186,532
F. R. Member Banks				
Loans and Investments	Dec. 28	21,649	21,742	21,402
Commercial, Agr., Ind. Loans	Dec. 28	3,843	3,857	4,601
Brokers Loans	Dec. 28	848	854	894
Invest. in U. S. Gov'ts	Dec. 28	8,266	8,333	8,018
Invest. in Gov't Gtd. Securities	Dec. 28	1,732	1,718	1,116
Other Securities	Dec. 28	3,221	3,218	2,881
Demand Deposits	Dec. 28	15,986	16,129	14,431
Time Deposits	Dec. 28	5,160	5,141	5,205
New York City Member Banks				
Total Loans and Invest.	Jan. 4	7,705	7,801	7,776
Comm'l, Ind. and Agr. Loans	Jan. 4	1,372	1,377	1,746
Brokers Loans	Jan. 4	717	681	674
Invest. U. S. Gov'ts	Jan. 4	2,748	2,826	3,052
Invest. in Gov't Gtd. Securities	Jan. 4	856	860	375
Other Securities	Jan. 4	1,078	1,099	932
Demand Deposits	Jan. 4	6,617	6,770	5,664
Time Deposits	Jan. 4	609	601	652
Federal Reserve Banks				
Member Bank Reserve Balance	Jan. 4	8,819	8,577	7,071
Money in Circulation	Jan. 4	6,839	6,912	6,510
Gold Stock	Jan. 4	14,565	14,508	12,755
Treasury Currency	Jan. 4	2,800	2,790	2,639
Treasury Cash	Jan. 4	2,725	2,707	3,622
Excess Reserves	Jan. 4	3,300	3,070	1,270

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Dec.	$243.7	$145.4	$71.8
New Capital	Dec.	47.2	102.4	50.4
Refunding	Dec.	196.5	43.0	21.4

COMMENT

Excess reserves of all **Member Banks,** after a brief pause, have again resumed their upward march. The latest week registered an increase of $230,000,000 bringing the total up to $3,300,000,000 and within $180,000,000 of the record high reached in mid-December last year. It is practically a foregone conclusion that excess reserves will reach a new high this month and may attain the $4,000,000,000 figure. Following the normal post-holiday pattern, circulation declined $73,000,000. Loans and investments of **New York City banks** in the latest reporting week declined $96,000,000. Loans increased $7,000,000, while investments were off $103,000,000. Commercial Loans were reduced $5,000,000, while brokers' loans were up $36,000,000. In the latest week domestic bank deposits rose $150,000,000 while demand deposits declined by the same amount, apparently reflecting commercial transfers, as well as interest and dividend payments to other districts.

• • •

The volume of new corporate financing, including refunding operations, last year fell short of 1937 by about $360,000,000. The best showing was made by the utility group, but railroad financing in 1938 was less than $73,000,000. A singular feature of 1938 financing was the large percentage of the total represented by private sales of new securities to institutional investors. It was estimated that some $500,000,000 of railroad and public utility bonds were thus placed. Bond registrations with the SEC were less than in 1937. Current strength in the bond market reflects confidence in the business prospect and probably presages important gains in new financing activities in the months ahead.

POSITION OF FOREIGN BANKS

	Jan. 4, 1939	Jan. 5, 1938
BANK OF ENGLAND		
Circulation	£488,071,000	£492,576,000
Public Deposits	20,503,000	14,442,000
Private Deposits	173,196,000	166,822,000
Bankers Accounts	135,955,000	129,235,000
Other Accounts	37,241,000	37,387,000
Government Securities	71,381,000	108,338,000
Other Securities	71,286,000	36,225,000
Discount and Advances	48,906,000	15,088,000
Securities	22,380,000	21,137,000
Reserves	69,029,000	54,533,000
Coin and Bullion	327,101,000	327,109,000
BANK OF FRANCE	Dec. 30, 1938	Dec. 31, 1937
Gold Holdings	Fr.87,264,000,000	Fr.58,932,000,000
Credit Balances Abroad	798,000,000	22,000,000
Bills on France	7,879,000,000	9,680,000,000
Wheat Office Bills	1,796,000,000	....
Advance Against Securities	3,611,000,000	3,782,000,000
Note Circulation	110,934,000,000	93,836,000,000
Credit Current Accounts	30,656,000,000	22,786,000,000
Temp. Advs. to State	20,627,000,000	31,908,000,000
Gold on Hand to Sight Liabilities	61.63%	50.53%

COMMENT

Although not yet apparent in the latest business indexes or the London stock market, the feeling appears to be growing in Great Britain that the business decline has about run its course. Rigid internal economies are being planned and efforts designed to increase Britain's competitive standing in international trade are under discussion. Wages may be lowered and working hours increased. Unemployment increased in November, but actual employment in some industries recorded gains. Building continues to decline.

• • •

Efforts continue to be put forth to improve the French internal economic position. At the beginning of the year the bank rate was cut to 2% and the loan rate lowered to 3%. Business and industry will be encouraged to make capital expenditures by incentive taxes and complete income tax exemption will be granted French exporters on interest paid on loans in order to discount bills issued by foreign governments to pay for French merchandise.

POSITION OF FOREIGN BANKS—Continued

GERMAN REICHSBANK	Dec. 31, 1938	Dec. 31, 1937
Gold and Bullion	Rm.70,773,000	Rm.70,639,000
Of Which Deposits Abroad	10,572,000	20,333,000
Reserve in Foreign Currency	5,515,000	5,702,000
Bills of Exchange & Checks	8,244,059,000	6,131,497,000
Investments	854,479,000	392,193,000
Other Assets	1,504,650,000	749,694,000
Notes in Circulation	8,222,687,000	5,492,916,000
Other Daily Matured Obligations	1,527,057,000	1,058,528,000
Other Liabilities	426,247,000	326,556,000
Proportion of Gold & Foreign Currency to Note Circulation	0.92%	1.39%

Evidence of the serious internal situation in Germany is supplied by recent foreign trade figures. In 1937 Germany had a favorable balance of trade of $168,000,000. Last year in the first nine months this balance was entirely wiped out and imports were $159,000,000 in excess of exports. Over half of this deficit was the result of the Austrian annexation. Seriously pressed for foreign exchange, a drastic cut in German imports is foreshadowed for the near future.

* * *

BANK OF CANADA	Jan. 4, 1939	Jan. 5, 1938
Reserve Gold, Coin & Bullion	$186,598,000	$179,765,000
Silver Bullion	....	2,993,000
Reserve in Sterl. & U. S. Dollars	28,468,000	15,755,000
Subsidiary Coin	221,000	49,000
Dom. & Prov. Gov't Short Term Securities	142,078,000	80,600,000
Other Dom. & Prov. Securities	40,603,000	91,507,000
Other Securities	....	12,201,000
Note Circulation	174,846,000	165,625,000
Deposits—Dom. Gov't	14,569,000	15,161,000
Chartered Banks	205,084,000	193,316,000
Res. to Note & Dep. Liabilities	54.17%	52.53%

Notwithstanding the sharp business recession in the U. S. last year, 1938 appears to have been the best business year, with the exception of 1937, for Canada since the depression. Foreign trade held up well, as did mining, while construction was only 16.5% under 1937. Moreover the year ended with nearly all basic business indexes recording sharp month-to-month gains.

FOREIGN EXCHANGE IN DOLLAR TERMS

Quotations in cents and decimals of a cent except pound sterling which is in dollars and cents.	Demand		Cables	
Country and Par	Jan. 6	Year Ago	Jan. 6	Year Ago
Great Britain ($8.2397 a sov.)	4.67⅜	5.00⅛	4.67⅜	5.00⅛
Belgium (16.9502c a belga)	16.89¼	16.97¾	16.89¼	16.97¾
Czecho-Slovakia (3.51c a crown)	3.43¼	3.51¼	3.43¼	3.51¼
Denmark (45.374c a krone)	20.86½	22.32½	20.86½	22.32½
Finland (4.264c a finmark)	2.06½	2.21½	2.06½	2.21½
France (par not definite)	2.63⅞	3.39⅝	2.63⅞	3.39⅝
Germany (40.33c a mark)**	40.08½	40.30	40.08½	40.30
Germany (benevolent mark)	22.75	.....	22.75	.....
Germany (travel mark)	22.65	25.75	22.65	25.75
Germany (handels sperrmark)†	4.85	.....	4.85	.....
Greece (2.197c a drachma)	0.85¼	0.91¾	0.85⅜	0.91⅞
Holland (par not definite)	54.42	55.68	54.42	55.68
Hungary (29.613c a pengo) ¶	19.82	19.95	19.82	19.95
Italy (5.2634c a lira)§	5.26¼	5.26½	5.26¼	5.26½
Norway (45.374c a krone)	23.48½	25.13½	23.48½	25.13½
Poland (18.994c a zloty)	18.95	19.02	18.95	19.02
Rumania (1.012c a leu)	0.75½	0.75	0.75½	0.75
Sweden (45.374c a krona)	24.06½	25.78½	24.06½	25.78½
Switzerland (par not definite)	22.59	23.16½	22.59	23.16½
Yugoslavia (2.981c a dinar)	2.32	2.36	2.32	2.36
Shanghai dollars (unsettled)	16.50	29.62½	16.50	29.62½
Hongkong dollars (unsettled)	29.25	31.32	29.25	31.32
India (61.798c a rupee)	34.90	37.76	34.90	37.76
Japan (84.39c a yen)	27.24	29.11	27.24	29.11
Sts. Settlements (96.139c a dollar)	54.40	58.75	54.40	58.75
Argentina (71.87c a paper peso) ¶	23.20	29.37½	23.20	29.37½
Argentina (71.87c a paper peso)**	31.14	33.34	31.14	33.34
Brazil (20.25c a paper milreis)**	5.90	5.30	5.90	5.30
Chile (20.599c a gold peso)†	5.19	5.19	5.19	5.19
Colombia ($1.645 a gold peso)**	57.06	54.95	57.06	54.95
Mexico peso (unsettled)†	20.35	27.80	20.35	27.80
Peru (47.409c a sol)†	20.50	24.62½	20.50	24.62½
Uruguay ($1.751 a gold peso) ¶	38.00	54.00	38.00	54.00
Uruguay ($1.751 a gold peso)**†	61.45	65.80	61.45	65.80
Venezuela (32.67c a bolivar) ¶	31.50	‡	31.50	‡
Venezuela (32.67c a bolivar)**	31.63	31.62½	31.63	31.62½

COMMENT

Last month England gave a hint of her determination to defend the pound at current levels by reimposing the restrictions on foreign lending which had formerly been in effect. This action was followed early in the new year by unofficial moves against financing speculative bear positions in sterling. Then the world was given final notice of England's intentions in the matter by the transfer to the Exchange Equalization Account of gold worth almost $1,700,000,000. Thus replenished, the Equalization Account has the resources to defend even a much weaker currency than sterling against any temporary downtrends. It is still too early to predict long-term stabilization, but immediate relief from the uncertainties of a sagging pound is in prospect.

* * *

The gold to bolster her exchange defenses came from behind England's note issue, replaced to great extent there by government securities. Another significance thus appears, with England moving toward the "fiduciary" currency system and away from the gold-backed. Some observers see a possible definite revaluation of the pound in terms of gold as a later step, but that conclusion is guesswork. The tendency exhibited in recent maneuvers points in the opposite direction—toward a managed currency and away from dependence upon gold or any other metal. Whatever the eventual outcome, the near future should see healthier psychological and trade conditions affecting the pound sterling.

§—Travel lira, 4.75c. †—Nominal quotations. ¶—Free rate. **—Official rate. ‡—Rate not available.

Security Statistics

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

1937 Indexes High	1937 Indexes Low	No. of Issues (1925 Close—100)	1938 Indexes High	1938 Indexes Low	Dec. 24	Dec. 31	1939 Jan. 7
122.0	54.3	330 COMBINED AVERAGE	77.8	44.2	68.7	73.1	71.9
253.3	111.4	5 Agricultural Implements..	133.9	88.5	109.4	116.5	114.7
72.6	34.0	6 Amusements...........	47.9	24.7	42.0	43.2	42.5
146.6	52.1	16 Automobile Accessories.	92.3	43.1	84.8	92.3h	89.8
30.1	8.9	12 Automobiles...........	14.8	7.0	12.0	12.8	12.6
178.0	73.4	9 Aviation (1927 Cl.—100)	182.7	75.2	164.5	182.7H	164.8
28.5	9.3	3 Baking (1926 Cl.—100)..	16.1	8.9	13.0	14.1	13.8
308.6	135.4	3 Business Machines.......	203.3	120.2	167.7	183.9	183.3
247.7	132.6	9 Chemicals.............	177.5	111.6	159.7	168.2	166.5
88.3	32.9	18 Construction...........	50.2	25.6	43.5	47.5	47.2
361.0	193.4	5 Containers............	246.2	173.8	235.2	242.6	233.6
217.3	75.3	9 Copper & Brass.........	129.6	60.0	115.4	118.6	114.5
43.0	24.5	2 Dairy Products..........	28.0	21.8	23.5	24.0	24.1
42.7	15.2	9 Departent Stores........	27.4	12.2	22.2	23.3	22.6
108.8	45.2	9 Drugs & Toilet Articles...	65.5	40.1	47.4	49.4	48.4
388.4	182.6	2 Finance Companies.......	329.0	158.1	313.0	312.0	307.6
71.9	37.5	7 Food Brands............	81.1	33.3	71.4	81.1	82.8H
53.2	25.9	4 Food Stores............	35.3	20.5	31.4	34.4	36.6h
122.3	46.4	4 Furniture & Floor Covering	72.1	36.9	67.3	72.1h	70.5
1160.6	894.0	3 Gold Mining...........	1262.1	953.7	1240.7	1259.7	1258.4
58.6	25.8	6 Investment Trusts........	32.1	21.1	25.8	27.6	28.1
317.8	167.2	4 Liquor (1932 Cl.—100)..	223.7	140.7	182.5	193.1	185.7
209.8	97.8	9 Machinery............	138.0	77.6	122.5	129.0	123.6
104.3	53.8	2 Mail Order............	85.8	49.1	83.7	83.7	81.8
109.6	47.5	4 Meat Packing..........	56.5	36.5	43.3	51.1	48.8
334.1	138.6	15 Metals, non-Ferrous......	195.9	116.0	165.9	173.1	173.6
26.5	7.4	2 Paper................	14.0	5.8	12.5	13.5	13.0
158.8	90.8	23 Petroleum.............	113.0	76.2	96.1	100.9	99.9
114.9	50.5	18 Public Utilities..........	65.6	38.8	53.8	58.6	58.9
31.7	13.3	4 Radio (1927 Cl.—100)...	18.9	10.3	17.0	18.1	16.1
112.9	37.7	9 Railroad Equipment......	61.6	28.2	58.4	61.6h	58.3
48.6	16.2	23 Railroads.............	18.6	10.6	17.0	18.1	17.7
28.5	6.9	3 Realty................	9.5	4.7	7.1	7.9	7.9
87.6	34.9	3 Shipbuilding...........	82.7	36.1	72.0	82.7h	77.6
165.6	69.6	13 Steel & Iron...........	106.5	55.2	94.6	99.0	98.1
45.2	21.6	6 Sugar................	25.7	17.4	18.3	20.1	20.1
171.2	118.6	2 Sulphur..............	169.1	118.6	146.2	153.2	148.4
85.3	43.2	3 Telephone & Telegraph...	60.0	37.6	48.9	51.3	50.0
91.8	35.3	7 Textiles..............	49.7	27.9	42.6	44.7	44.8
29.2	10.7	4 Tires & Rubber..........	20.6	10.0	19.7	20.0	19.2
99.4	68.3	4 Tobacco..............	86.1	63.8	83.0	85.5	85.9
71.9	20.6	5 Traction....	39.8	15.6	33.9	34.0	32.8
346.8	157.7	4 Variety Stores..........	243.3	146.0	207.3	215.5	216.8
.....	.....	22 Unclassified (1937 Cl.—100)........	135.8	84.7	118.2	123.4	124.7

h—New HIGH since 1937. H—New HIGH record since 1931.

DAILY INDEX OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times —50 Stocks— High	N. Y. Times —50 Stocks— Low	Sales
Monday, Dec. 26...				HOLIDAY		
Tuesday, Dec. 27....	71.45	150.43	31.55	105.99	104.74	1,236,280
Wednesday, Dec. 28	71.54	151.45	32.12	105.92	103.98	2,164,080
Thursday, Dec. 29...	71.87	153.62	33.16	107.68	106.25	1,882,960
Friday, Dec. 30.....	72.20	154.36	33.60	108.62	107.20	1,400,010
Saturday, Dec. 31...	72.44	154.76	33.98	108.82	107.17	853,190
Monday, Jan. 2....				HOLIDAY		
Tuesday, Jan. 3.....	72.34	153.64	33.78	108.67	107.29	1,152,880
Wednesday, Jan. 4..	72.78	154.85	34.33	108.87	107.24	1,500,760
Thursday, Jan. 5....	72.80	153.18	33.26	109.04	107.32	1,570,120
Friday, Jan. 6......	72.70	152.87	33.25	107.63	106.67	951,460
Saturday, Jan. 7....	72.67	151.54	32.93	106.90	105.95	632,910

STOCK MARKET VOLUME

Week Ended Jan. 7	Week Ended Dec. 31	Week Ended Dec. 24
5,808,130	7,536,520	5,980,342
Total Transactions	Same Date	Same Date
Year to Jan. 7	1938	1937
5,808,130	6,050,640	13,710,465

COMMENTS

During the first week of the year, our Combined Average of over 300 active stocks reacted moderately after recovery, up to Dec. 31, of about 56% of ground lost between Oct. 22 and Dec. 10. This recovery registered by our broader weekly Index was feebler than the rebound of around 88% staged by our Index of 40 industrials. Volume during the week ended Dec. 31 was only 63% of transactions during the previous peak week ended Oct. 22.

* * *

During the fortnight ended Jan. 7, seven groups advanced to new highs since 1937—five during the closing week of the old year, and two during the opening week of the new. Aviation stocks reached the best level since Oct. 12, 1929, on the unusually sharp bulge of 18 points during week ended Dec. 31, and then lost practically all of that week's gain in an abrupt reaction during the ensuing week. Such pyrotechnics are by no means exceptional near the culminating phase of a group advance where the future has been discounted too enthusiastically.

* * *

Food Brands, under the leadership of a marked rise in Loft, Inc., advanced to the highest level since Sept. 13, 1930. Shipbuilding issues, due to expanding backlogs, mounted to the best level since Mar. 6, 1937. Railroad Equipments, under belief that something will be done this year to help the rails acquire more efficient rolling stock, reached the highest level since Sept. 4, 1937. Automobile Accessories and Food Stores (the latter helped by conviction that anti-chain store sentiment has about burned out) advanced to the best level since Sept. 18, 1937. Furniture (inspired by the resurgence of residential building activities) reached the highest levels since Oct. 2, 1937.

* * *

Groups displaying short term technical strength, by advancing in a declining market during week ended Jan. 7, included Dairy Products, Investment Trusts, Non-ferrous Metals, Public Utilities, Textiles, Tobacco, Variety Stores and the miscellaneous collection of stocks not subject to definite classification in any specific industrial group. Most of these groups have to do with consumers' goods.

* * *

Containers, Copper, Finance Cos. (owing to expanding competition), Mail Order, Tires and Traction stocks, during week ended Jan. 7, displayed short term technical weakness by declining to bench marks ante-dating the bench mark reached by the Combined Average. Weakness in Tractions resulted from further delay in deciding upon a unification plan.

IN THE NEXT ISSUE of The Magazine of Wall Street

What Base for 1939 Prosperity?

A Measure of Potential Demand, Industry by Industry

By FRANK R. WALTERS

Hazards and Possibilities in Aircraft Stocks

(*Continued from page 367*)

Government also may help develop the South American markets by new forms of credit to meet European competition in Latin America. That would help the industry. New legislation dealing with aircraft exports will have much to do with determining profits of a majority of the companies, including plane, engine, instrument and accessories manufacturers.

Both in its defense legislation and new export laws Congress will have the last word as to what shareholders may expect from aviation stocks in the next two years.

Ten Market Leaders

(*Continued from page 361*)

definitely more encouraging duplication of the 1937 high of 72⅜ does not appear to be an unlikely possibility.

Republic Steel Corp.

A detailed discussion of Republic Steel Corp., giving particular consideration to the strong leverage factor present in the common stock, appeared on page 305 of the December 31st issue of The Magazine of Wall Street. Concluding that speculative factors dominated the prospects for Republic Steel common stock, this discussion also disclosed the presence of factors which might conceivably add many points marketwise to the value of the shares in the event that the anticipated business recovery this year is realized.

Republic Steel has currently completed a major program of plant expansion and modernization which was started during the latter part of 1935. The company has made excellent progress in unifying its operations, finances have been strengthened and with productive capacity enlarged to 6,500,000 tons of ingots annually, it is firmly entrenched as the third largest steel unit. Lighter steel items are un-

derstood to account for about 75% of the company's output, and Republic is ranked as the largest domestic producer of alloy steels. Industries served include automobile, metal fabricating, container, construction, railroad and oil.

Unfortunately, however, the intervention of adverse developments, including costly labor strikes, have prevented the company from demonstrating its real earning power. Following a loss of $3,500,000 in 1934, the next year saw a profit of $4,500,000 and the latter figure was more than doubled in 1936. In the first quarter of 1937, a profit of $5,-567,000 was shown, the largest in the company's history. The latter results were equal to approximately $1.04 per share and this showing probably represented a pretty good exhibit of the earning power of the present property and capital set-up under fairly good, but not boom, conditions in the steel industry. For all of 1938, Republic will probably show a loss of around $9,000,000, the bulk of which, however, was sustained in the first three quarters. With the company's present paypoint estimated at about 50% of capacity, operations in the final quarter added little, if any, to the deficit incurred in the preceding nine months. The shares are currently quoted only slightly under their 1938-39 high of 25⅝, which compares with a low of 11¼ and the 1937 high of 47¼.

United Aircraft Corp.

The second largest manufacturer of planes and aircraft engines, United Aircraft Corp. is unquestionably one of the top-flight aviation units. In addition to Pratt & Whitney "Wasp" and "Hornet" aircraft engines, the company produces Chance - Vought military planes, Sikorsky flying boats and Hamilton propellors. With operations thus integrated and having such valuable assets as an able management and an experienced engineering staff, United Aircraft would appear to be in a position to share prominently not only in the discussed expansion in our Army and Navy aviation forces, but in commercial and export orders, as well. Export business promises to be exceptionally profitable, as it is understood that most of the company's development costs have been absorbed by its United States military contracts. Moreover, United Aircraft has adequate surplus plant capacity and is in a position to take on a considerably larger volume of business without enlarging its facilities, a trained personnel being the only necessary addition to its forces.

Responding to the accelerated tempo of aircraft construction in recent years, the company's sales and earnings have recorded substantial gains. Sales practically doubled between 1935 and 1936 and in 1937 a total of $28,671,942 was some $6,600,-000 greater than in 1936. Sales in all of 1938 may have exceeded $35,-000,000 and net profit for the nine months to September 30, last, totaled $3,564,405, or the equivalent of $1.40 a share on 2,530,295 shares of capital stock. In the comparable period of 1937 net was equal to $1.07 a share. On the basis of this showing, profits for the full 1938 year may have approximated $2 a share, which would compare with $1.52 a share in 1937. On June 15th, last, the company paid a dividend of 50 cents a share, and on December 15th a payment of 75 cents was declared.

After staging gains, which in some instances approached the spectacular, the aircraft group has recently come in for considerable selling, which has had the effect of depressing market quotations. Doubtless this represents the liquidation of speculative commitments inspired by the growing knowledge that talk of increasing the U. S. air force to 10,000, 12,000 or 14,000 planes was likely to prove grossly exaggerated, so far as near term prospects for aircraft manufacturers are concerned. At the same time, however, it is a safe assumption that aircraft sales both at home and abroad will record further important gains this year and the shares of United Aircraft appear to be one of the more conservative vehicles for obtaining a speculative stake in the future growth of the industry.

The Next Business Boom

(Continued from page 356)

normal economic hazards but as regards hazards which in recent years have related largely to the political sphere, such as increasing Government regulation, tax changes and trends, labor relations, threats of war; and confidence in the near-term profit trend. As a practical matter the latter type of confidence is probably the most important. For instance, we saw substantial capital investments during the past several years in such industries as chemicals, steel, paper and automobiles—not because there was confidence in the political outlook, but because current demand was close enough to plant capacities to justify expansion or modernization of facilities. Revival of long-term and short-term confidence will usher in the next business boom.

Generally speaking, the long-range outlook appears highly favorable—barring a major war or a politically-inspired deflationary change in present credit policy of our central banking system. In Government all signs indicate that we have passed the crest of one of our periodic reform eras and are entering an era of consolidation and rationalization. Political factors will not much longer hold back the tide, but that is not

enough to launch an early and sustained rise in capital goods activity. It will come gradually, picking up real momentum when expanding demand for consumer goods of all kinds begins to tax plant capacities. Then capital goods activity and its resultant expansion of payrolls will further boost consumer demand, leading to need for still more capital goods—until the cycle runs to excess, another capitals goods "holiday" is made necessary and another economic setback inflicts itself upon us.

Meanwhile, watch the money supply, as mirrored by demand deposits, for, while bank deposits are more than ample, any cessation of an inflationary credit policy would be psychologically deflationary; watch the rate of spending, as shown by debits to individual bank accounts; and watch the new capital flotations, the capital outlay budgets of corporations and the trend of private construction as clues to the vitality of much-needed long-term investment.

Speculative Rails—Their Potentialities and Dangers

(*Continued from page 379*)

profitable Pacific Fruit Express. Land holdings, including fair amounts of timber, coal and oil, amount to over 8,937,000 acres, the worn but still best comparison being with the state of Rhode Island's total of under 800,000 acres.

New York Central mileage is not far below that of Southern Pacific and its territory is far more densely populated. The states it serves contain half of the country's population, produce two-thirds of its manufactures. Most highly industrialized of any of the roads discussed here, Central stands to gain most on a recovery in heavy industries and producers' goods. Substantial holdings of this stock by Delaware & Hudson will quite probably be liquidated over the near term and while the sales are going on market action may be less volatile than would otherwise be the case, but the amount hanging over the market is not large enough to nullify for long the effects of an improving outlook. Running at right angles to New York Central, the Illinois Central taps the western end of the same territory and will be benefited by the same influences. Both roads have been among the largest and the most consistent of earners in the past, their record extending over many decades with never a dividend missed until the 1932 depression.

Maintenance of way and equipment has been fairly well attended to by all four carriers. New York Central has finished a large rail replacement program and has purchased considerable new motive power. Southern Railway had been until recently penalized by its lack of freight cars, but through large purchases with money borrowed at low rates of interest is in position to save substantial sums annually in reduced car rental charges. Illinois Central has spent large amounts on rehabilitation and as in the case of Southern Pacific faces little or no extra expense because of an increase in traffic.

Needless to say, the wide and rapid rallies in the issues discussed have been based upon a definite uptrend in their business. Should this trend prove unreliable the mark-

down could be expected to proceed at an equal pace. Even if all goes well and rail prospects continue their improvement gradually, the intermediate reactions which affect the market from time to time are likely to have greater than average impact upon these prices built on hopes for the future. A market reaction due to technical conditions alone, with no more than seasonal contraction in rail earnings, would furnish a splendid buying spot for a short-term trade in any of the four carriers.

If a choice were to be made now for the purpose of such a trade, it would lie between Southern Railway and Illinois Central, simply because their territories are in the midst of a more pronounced uptrend than those of the other two roads. For the time being, interest should logically center on the carriers able to show the widest increases in earnings over previous periods, and the immediate possibilities in this direction favor the two north and south lines. A longer view would tend to equalize matters between all four companies, with New York Central and Southern Pacific assuming more promise if recovery is extended further.

Another Look at . . .

(*Continued from page 381*)

at 91, rather than the 150 registered earlier in that year. The downtrend which started then carried through with sufficient severity to reduce Sherwin-Williams' profit for the year to August 31, last, to $2.42 a share, as compared with the $8.41 of a year earlier; sales were off 13.8%; and the price of the stock fell at one time early in 1938 to a low of 66.

Since the issue is now selling higher than at any time in the 1929 boom (105 then, 109 now) a quick recovery in earning power is a necessary anticipation. This appears quite probable, and even though a third of the fiscal year is already gone, the spring months should help raise profits far above those of a year ago. There should be no necessity for an inventory writedown, such as the half-million-dollar one of 1938, and with gross profit margins already widened through better control over operating expenses the effects of improved volume can hardly fail to come through to net in good proportion. Earnings in the 1937 fiscal year were the largest on record—a difficult mark and one probably not to be eclipsed this year, but the trend of growth has apparently been only interrupted.

The dividend rate of $2.50 for last year constitutes a meager return on investments in Sherwin-Williams, but may very well be enlarged, particularly since the company is in strong financial shape. While not likely to exhibit startling market appreciation from current prices, Sherwin-Williams constitutes an acceptable longer-term holding.

What's Wrong with the Movies?

(*Continued from page 363*)

production and there is no question that patronage will hold up. There is an example that Hollywood is still marvelling at. For seventeen weeks, at a 600-seat neighborhood house off the main travel routes, an English-made feature, "Moonlight Sonata," featuring Ignace Paderewski, 76 years old, and Marie Tempest, 75 years old, filled that theater four times a day, the crowds standing in line for the evening performances.

A few individual producers making three to five productions each year, seldom show a loser, yet apparently few studios ask themselves why. Of course, at the root of the present situation is the economic fact that a hundred-acre studio lot, studded with stages and outdoor sets, with a personnel running into one or two thousands, with extraordinary overhead costs—some of it due to the top-heavy salaries, which merely serve to enrich county, state and federal governments, simply have to maintain a heavy production schedule and then force that product upon the public whether it is wanted or not.

For the sake of illustration let us assemble a few facts and draw a few obvious conclusions. A motion picture theater attendance of 70,000,000 weekly indicates that more than half the entire population of the United States from babes in arms to the aged, bed-ridden, jail-kept, sick and insane attend a picture

house once each two weeks. The probability being that at least half the population does nothing of the kind for any one of several reasons, including the above. Assume a community of 25,000 persons with three theaters—most likely a minimum. For the purpose of argument let us assume the theater-going clientele of this town is 10,000 persons. The even chances are that but one of the theaters will run a picture for a full week; one will run two pictures during the week and the other will run three or run a daily change bill. Presuming there is no double bill practice—which is improbable—the top weekly requirements of that town will be nine features a week, which is manifestly absurd and indicates where part of the trouble lies. Even if that town's population insisted on viewing three different programs a week, there is sufficient variety of bill to enable them to do that on a one-feature-a-week basis. But the exhibitor has it impressed on him by the film salesman that he must "give his patrons what they want" and that they want to see a lot of pictures every week.

For some years the organization presided over by Mr. Will Hays has carried on a campaign to educate the public to a higher appreciation of "better" pictures. How many millions that futility has cost will never be known, but if a fraction of it had been spent in educating exhibitors to use elementary showmanship and producers to use economic facts instead of uneconomic guesses, there would be higher dividend rates and fewer absurd salaries.

Not the least of the movie problems is that of the industry's self-applied censorship conducted by the Hays office. Recently Hedda Hopper, a nationally known Hollywood commentator, referring to the recently released picture "Zaza," which in its stage form some 35 years ago was regarded as the height of impropriety, remarked:

"You could see the fine hand of censorship in practically every foot. If they are not careful the Hays office will whittle us right out of the picture business. Naughty situations which our grandmothers loved and chuckled over are now too strong for our delicate children who have cut their baby teeth on gangsters, machine guns and jitterbug contests."

Some weeks ago a spokesman for the Hays organization remarked that a villain in any picture must be an unmarried American, unemployed and with no racial, religious or political affiliations. And not only are the moralities driving us to such potential sensations as the love life of the wild flowers, but national groups everywhere are becoming tenderized to the point where their feelings are hurt at anything less than 100% laudation of their kind. For several years foreign consuls resident at Los Angeles have been insisting on their right to examine all movie scripts dealing with their nationals. So far that right has not been recognized, but who knows what is just around the ethical corner? With the pressure applied by representatives of thirty or forty million church members the Hays censors are more and more inclined to lean backward and the eventual result may be a product so colorless that all drama has been eliminated. And then the difference between a feature film and Godey's Lady Book will be hard to define.

Some drastic changes are inevitable when the foreign market is considered. Two or three years ago the

foreign market represented about 40% of the total income of American producers. Today if it equals half that the studios are lucky. The biggest foreign market, of course, lies in the English-speaking countries. But the British are learning to make pictures. At this writing in New York three English-made pictures are topping the picture receipts at three theaters, and they are not fantastically expensive pictures either. Dollar for dollar in exhibition value one or two recent Hollywood features not in the same earning rank would each have paid for all three. But try to get the American movie maker to accept that if you can! Each of the big six in America is producing in England because they have to if they want to hold their English-speaking markets under the various quota laws, and some of them are mighty good pictures, too. The effect of that is going to be a swift improvement of British technique and product.

Will the old 40% foreign market ever be restored? Not unless a miracle happens. The British are now competing with us in our own home markets. The Italians, French and German producers never will, but they will eventually learn to turn out a picture product which will satisfy their own countrymen, who today prefer American pictures, even with written titles—when they can get them.

Let us turn to the ethics of single ownership of production, distribution and exhibition.

Since the Federal Government has taken cognizance of the situation we may assume that there is contention that the practice is, to say the least, in restraint of trade and against the best interests of the individual theater owner. Out of this type of ownership grew block booking which to many minds seems as iniquitous as the freight rebates of many years ago. That there will be a definite separation of production and exhibition, is a foregone conclusion, many informed persons believing the movie makers will never permit the Government suit to reach a trial, be the cost what it may. And if an agreement is reached it is reasonable to suppose that the Federal Trade Commission will see that it is something more than the usual "gentlemen's agreement." From even a normal man's viewpoint it is considered grossly unfair that a manufacturer should compete in retailing with his own dealer customers. The conditions likely to arise being somewhat similar to a trial for the murder of Cock Robin with the sparrow as judge and jury.

Insofar as a very minor prophet may express an opinion, sheer, inescapable economic pressure will eventually solve many of the problems now affecting the movies which have been discussed above; particularly those problems of production. It seems to me inevitable that the present impossible situation—noted in previous paragraphs—where one man is responsible for the selection of fifty or sixty features, must eventuate in a very radical change in the conduct of the great studios. Already there are symptoms of this change. If Samuel Goldwyn, Walter Wanger, Edward Small, etc., can turn out two or three successful features a year by devoting adequate time to preparation, then that is the system which will prevail. These gentlemen, and others who can be depended on to follow their example, can devote their whole attention to their own product and it is not a wild assumption that the big studios will gradually become little more than socalled "rental lots," where all production facilities will be maintained at the service of the individual producer, his product financed by the big studio and distributed by it to the several thousand theaters in the land.

Such a situation will go far toward bringing the parallels between the studio and the publishing house closer together, since the search for suitable material will lie with the individual producer, who then will be in much the same position as the individual novelist, bringing his book to the publishing house for printing and distribution. Paramount Pictures at this writing seem to be proceeding in this direction. Given this arrangement and truly equitable handling of distribution and exhibition, there is no reason why picture corporations should not turn over a suitable dividend on investment. With this plan would disappear the enormous player salaries based on competition alone, and the bonuses to executives who, generally just happen to be there when the annual profits are being made known.

Latin-American Investments Since Lima

(*Continued from page 369*)

commercial relations with the United States, it should be possible to effect an adjustment which will be within the capacity of the nation and at the same time not altogether unfair to bondholders. The same applies to Colombia and Brazil. The former is expected shortly to announce a settlement which should prove more satisfactory than is suggested by prevailing quotations for the various Colombian issues. Brazil should follow suit. The cash service on her foreign debt was suspended in 1931 when payment of interest was made in 5% scrip. In 1934 the so-called Aranha Plan of payment was adopted, providing for the service on the debt during the period April 1, 1934-March 31, 1938, on a graduating scale. Towards the end of 1937, the Aranha Plan was abruptly ended by Getulio Vargas, the head of the republic, who has, however, assured foreign creditors that payments would be resumed as soon as economic conditions will warrant such move. Marked improvement in the country's trade during the past few months justifies a certain degree of optimism.

Although economic conditions in Argentina do not appear to have been especially satisfactory, due largely to the sharp decline in the country's foreign trade, the status of Argentine bonds, notably those of the federal government, has not changed for the worse. Argentina is confidently expected to have the same high regard for the rights of creditors in the future which she has had for many years past.

Those who had hoped that the Lima Conference would alter markedly the status of American holders of Latin American bonds will be disappointed. Their position remains unchanged, unless one is willing to place a considerable amount of confidence in that resolution which urges the adoption of measures by all American republics for the increase of commerce among them. Enhanced trade means more dollars and when America's neighbors will once again enjoy prosperous days they may be willing to pass on some of their prosperity to their northern creditors.

America's southern neighbors may also to good advantage give serious thought to the observation made by one of their own sons, Lewis Casa, one of the most respected authorities on international law, to the effect that: "It is abhorrent to the sense of justice to say that one party to a contract, whether such party be a private individual, a monarch, or a government of any kind, may arbitrarily, without hearing and without impartial procedure of any sort, arrogate the right to condemn the other party to the contract, to pass judgment upon him and his acts, and to impose upon him the extreme penalty of forfeiture of all his rights under it, including his investment of capital made on the faith of that contract."

Appreciation of and respect for fundamental principles such as the above are the prerequisites for a better understanding among nations. In order to be a good neighbor one must be an honest neighbor.

Answers to Inquiries

(*Continued from page 384*)

This policy will be beneficial to Reynolds in building a strong cash position. Finances of the company at the latest report remained strong, which justifies the belief that the liberal yield afforded by the shares will be continued. We counsel full retention of your securities.

E. I. duPont de Nemours & Co.

I am contemplating purchase of 50 shares of duPont common for income and price enhancement. Do you approve? Is duPont likely to be a 1939 market leader benefiting from our vast rearmament program and from increased automobile demand through its holdings of General Motors?—D. A., Los Angeles, Calif.

Some improvement in operations of duPont will probably take place as a result of the rearmament program, but major expansion is expected from the wide variety of industries served. Products of the concern are consumed in substantial quantities by such widely diversified industries as textile, chemical, auto-

mobile, paper, construction, petroleum, iron and steel, mining and agricultural. The company is also favored by such factors as the sizable proportion of products sold directly to the ultimate consumer, freedom from raw material problems and the low ratio of labor costs and the value of the finished product. Moreover, duPont has also a sizable investment in the common stock of General Motors, being roughly equivalent to one share of General Motors for each common share of duPont. Dividends received from this investment have bulked large in past earnings reports, although manufactured products of duPont are gaining in importance as a revenue producer. It is anticipated that better conditions recently surrounding the industry plus the $.75 dividend paid by General Motors will raise profits from the $2.23 a common share shown for the nine months ended September 30, 1938, to around $3.75 for the full 1938 year. Moreover, satisfactory operations are expected at least for the first quarter of 1939 due to increased automotive production and continued improvement in general business. To attempt to enumerate the new products marketed by the company would take up entirely too much space for the purpose of this discussion. It suffices to say that the company is continually experimenting and working in its research laboratories for new materials and new uses for old ones. This has led to a wide variety of products as shown by the businesses served. The common shares of the company as a semi-investment should prove profitable additions to any longer term portfolio.

Phelps Dodge Commands a Premium

(Continued from page 373)

51,297 tons, compared with 69,827 tons in October, so that at the current delivery rate there is about five months' supply on hand.

Not that there is cause for any great alarm in the statistical position of the American copper industry, it is only that it is not as good as it might be and the recent expansion in operations may have to be reversed, lest a definitely unhealthy situation develop. Clearly adverse, however, has been the recent weakness abroad in copper prices. The present price is about 10.50 cents a pound which compares with a domestic producers' price of 11.25 cents.

There is of course, a duty of 4 cents a pound on copper imports, so that the American market is not directly affected by decline abroad. However, this country normally does a substantial export business and there is a shift on the part of sellers from the foreign market to the domestic market as soon as price favors the latter. Hence, indirectly a decline in the price of copper abroad exerts great pressure on the domestic quotation. Probably the present differential has existed as long as it has because of a desire to avoid drastic inventory adjustments at the year-end. More recently, however, the spread between foreign and domestic copper has narrowed, with foreign markets displaying a stronger tone. Domestic buyers, apparently cautious in the face of the price uncertainty, have held off and inventories have been used. A cut in domestic prices at this time would do little to encourage buying, while on the other hand, any evidence that present prices are likely to remain firm will doubtless encourage fabricators to replenish stocks.

There remains only one question to be answered. Is the judgment of the stock market indeed right when it ignores the near-term uncertainties in favor of a fundamental corporate soundness and the certainty that an investment made here will sooner or later work itself out profitably? Or, phrasing the same question a little differently: can the individual trust the present market appraisal? Frankly, it all depends upon the position of the individual. A premium stock such as Phelps Dodge can seldom be bought without risk of substantial decline — certainly never in the face of a somewhat obscure near-term outlook. In these cases one never knows when some development is going to make the market ignore basic factors and concentrate, with the lack of logic it often shows, wholly on superficialities. On the other hand, given patience and a capacity to ignore intermediate fluctuations, Phelps Dodge appears more than likely to make money for its stockholders.

DIVIDENDS RECENTLY DECLARED

Company	Rate	Period	Stock of Record	Payable
Alaska Juneau Gold Mining	1.00	Q	1/3	2/1
Amerada Corp	2.00	Q	1/14	1/31
American Ship Building	2.00	Q	1/14	2/1
Barnsdall Oil	1.00	Q	1/14	2/1
Boston Edison	8.00	Q	1/10	2/1
Commonwealth Edison	1.60	Q	1/14	2/1
Consolidated Cigar	0.75	—	1/3	1/14
Consolidated Oil	0.80	Q	1/14	2/15
Corn Products Refining	3.00	Q	1/3	1/20
Corn Products Refining Pfd	7.00	Q	1/3	1/16
Electric Bond & Share Pfd	6.00	Q	1/6	2/1
Electric Bond & Share Pfd	5.00	Q	1/6	2/1
Firestone Tire & Rubber	0.25	—	1/5	1/20
General Foods Pfd	4.50	Q	1/10	2/1
General Mills	3.00	Q	1/10	2/1
Gorham Mfg	1.00	—	1/3	1/16
Gotham Silk Hosiery 7% Pfd	7.00	Q	1/12	2/1
Hecker Products	0.60	Q	1/10	2/1
Horn & Hardart	2.00	Q	1/12	2/1
Lehigh Portland Cement	0.25	—	1/14	2/1
Lerner Stores	2.00	Q	1/3	1/14
Maytag Co. $3 Pfd	3.00	Q	1/14	2/1
Maytag Co. $6 1st Pfd	6.00	Q	1/14	2/1
Melville Shoe	0.75	—	1/13	2/1
Mission Oil	1.65	—	1/3	1/10
Morris (Philip) & Co	0.75	—	1/3	1/16
National Aviation	0.25	—	1/3	1/14
Northwest Engineering	0.25	—	1/14	2/1
Public Service of New Jersey Pfd	6.00	M	1/14	2/15
Royal Typewriter	0.75	—	1/5	1/16
United Corp. $3 Pfd	0.75	—	1/3	1/18
U. S. Smelting, Refining & Mining	1.00	—	1/3	1/14
U. S. Smelting, Refining & Mining 7% Pfd	3.50	Q	1/3	1/14
Walgreen Co	1.00	Q	1/13	2/1

Q—Quarterly. M—Monthly.

All declarations on common stocks unless otherwise noted.

As I See It!

(*Continued from page 351*)

cans who believe they can meet today's economic difficulties by fascism. Others discouraged with the unreasonableness of labor, fearful of strikes, think it impossible to get anywhere without a dictatorship. Both these groups are products of a hothouse age. Their shallow thinking is a menace to the nation's welfare, whether it be through taxation or preparedness. They attack the government's armament appropriations as if the totalitarian nations were not spending billions of dollars in armaments for which their people are being cruelly taxed! In the dictator countries the government absorbs the bulk of business profits and the income of the people leaving them barely enough for subsistence! Are we to be left without advantageous bargaining weapons, which our armament will necessarily be—or are we to suffer defeat as have England and France because they were unprepared?

Let us take the criticism of the government's pump priming policy. Only time will tell whether it is right or wrong. The Germans themselves point to the fact that when the Nazis took over Germany, both the private and public debt of the nation had been thoroughly deflated by the collapse of the mark. And to bring a revival Hitler had to spend fifty billion marks or twelve and a half billion dollars in the effort to revitalize the German economy. In our country, from the time of McKinley in 1900 to the peak of the Coolidge boom in 1929, the United States has been in an age of almost continuous expansion during which time we marked up our assets about two hundred billion dollars. The deflation process had gone only part way when the New Deal came into power; and up to date it has spent twenty billion dollars on a planned recovery. In making comparison between the Nazi program and that of the New Deal the critics declare that the reason the inflation did not take hold was because government spending did not keep pace with the deflation of private indebtedness in our country.

To those who believe that the government's public debt and spending policy is wrong and wasteful—and to those who criticise merely for political purposes—it may be said that the only difference between the spending in the Democracies and the Totalitarian countries is that you dare not criticise or find fault with the expense or waste in spending by the Dictators.

In addition, the Nazis have broken every orthodox law of finance. Schacht who was called a dangerous madman in the beginning is now being hailed as the greatest financial genius of the age.

All these things it is well to consider in our fight to rebuild our economy soundly and for the benefit of all the people.

We have the opportunity to make real headway in 1939. Politically, up to now, we have been suffering from one party rule. This year we recover the balance arising from two party representation. Economically, we have everything—raw materials, productive capacity, buying power and those great ingredients: initiative and liberty of action. The whole world would mock us if we could not solve our problems and maintain our position as a world power.

All we have to do is approach our problems with sincerity and singleness of purpose and a willingness to cooperate to win out in a big way.

Happening in Washington

(*Continued from page 365*)

compelling licensing on reasonable royalties and preventing price, production, and marketing restrictions in patent licenses.

Corporation accounting practices may be made subject to Federal regulation. S E C feels registration statements filed with it do not always give investors sufficient information because of accounting methods used and that many concerns not registered could well revise their accounting practices. McKesson & Robbins will be cited as the horrible example, with the implication that there are others.

Alcohol motor fuel from farm products is economically impractical. De-

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Comprehensive comparison of American and British investment trusts, containing a list of more than 1200 trusts with specific recommendations as to suitability for investment.

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How the average businessman and banker through a study of the Dow-Jones averages can obtain a sound picture of existing business conditions and forecast coming changes.

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REBIRTH OF MONOPOLY
KEMNITZER, WILLIAM J.
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The author sees the growth of a new monopoly in the petroleum industry and gives a solution of the problem by means of competition as a result of federal legislation.

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HIGH IRON
BEEBE, LUCIUS
Appleton Century $5.00

The romance of railroading from the first transcontinentals down to streamlined days, depending mainly on interesting photographs for its presentation.

These books may be obtained through The Magazine of Wall Street book service.

partment of Agriculture concludes in a report which should relieve the oil industry of the threat of subsidized alky-gas as a farm relief measure and which also carries sage warnings against expecting too much immediately from new industrial uses of farm products. Timely, since it shows that optimistic forecasts of chemurgy possibilities depend as much on economic problems as on laboratory researches.

Monopoly probe hearings will run pretty steadily through the spring. A dozen subjects are nearly ready to be presented in the same fashion as glass patents were, and the agencies which worked them up are anxious to take over the show in order to get the limelight and also to get their reform ideas planted early before other conclusions become crystallized in minds of T N E C and Congress members.

The Stockholder's Guide

(Continued from page 375)

of the company itself. Stockholders should remember that earnings retained in the business still remain their property and if they haven't sufficient faith in the ability of the company's management to utilize these earnings to the best advantage they should sell their stock.

Lehigh Valley Coal Moratorium

Following the pattern recently set by the Baltimore & Ohio and Lehigh Valley railroads, the Lehigh Valley Coal Co. is seeking the consent of bond and note holders to an interest moratorium, as an alternative to accepting bankruptcy under section 77B of the Bankruptcy Act. Holders of the 5% bonds will be asked to agree to the postponement until February 1, 1944, of 75% of the interest due February 1 and August 1, 1939, and to the suspension until February 1, 1941, of all sinking fund payments and the substitution of new annual payments, calculated to be sufficient to retire the issue maturing February 1, 1944. Holders of the class A 6% notes, other than those held by the Lehigh Valley R.R., will be asked to postpone until January 1, 1943, 75% of interest due January and July 1, 1939, and to the suspension of all sinking fund payments and the substitution of new monthly payments calculated to retire the notes at maturity. Holders of the class B notes, of which Lehigh Valley R.R. owns $2,164,500, are being asked to forego interest from January 1, 1939, until 1943. To declare the plan operative the company seeks the assent of holders of 80% of the bonds and 75% of the notes. Inasmuch as the company is faced with no nearby maturities and no extension of maturities is asked, present difficulties being due to exceptionally warm weather, low tonnage sales and low prices, bond and note holders would appear justified in extending their approval of the plan, hoping that the avoidance of bankruptcy at this time may give the company a necessary breathing spell and an opportunity to realize on any turn for the better in the anthracite coal industry.

Forthcoming Dividend Meetings

Company	Time	Date
American Home Products	11:00	Jan. 26
American Tobacco Common & Class B	4:15	Jan. 25
Chile Copper	11:40	Jan. 26
Dow Chemical Com. & Pfd	10:00	Jan. 24
Freeport Sulphur	3:30	Jan. 25
Grand Union Pfd	11:30	Jan. 27
Ingersoll-Rand	11:00	Jan. 25
International Harvester Pfd	2:00	Jan. 19
Liggett & Myers Tob. Com. & Class B	12:00	Jan. 18
Lord & Taylor 1st Pfd	4:30	Jan. 16
Macy (R. H.) & Co	10:00	Jan. 18
Manhattan Shirt	10:00	Jan. 23
National Lead 7% Class A Pfd	10:00	Jan. 24
National Power & Light	3:15	Jan. 19
Norfolk & Western Railway	11:40	Jan. 24
Omnibus Corp. 8% Pfd	11:00	Jan. 18
Philadelphia Co. 5% Pfd	12:00	Jan. 16
Public Service of New Jersey 8%, 7%, 6%, $5 Pfds	3:00	Jan. 17
Reading Co. 4% 1st Pfd	2:00	Jan. 24
Reynolds Metals 5½% Cum. Pfd	12:00	Jan. 27
Scott Paper	10:00	Jan. 26
Selby Shoe	1:00	Jan. 17
Shawinigan Water & Power	12:00	Jan. 18
Southern California Edison Pfd. B	12:30	Jan. 27
Tampa Electric Com. & Pfd	11:00	Jan. 24
United Engineering & Foundry Com. & Pfd	11:00	Jan. 24
United Gas Improvement Com. & Pfd	3:15	Jan. 24
U. S. Pipe and Foundry	11:15	Jan. 19
U. S. Playing Card	3:30	Jan. 26
Westinghouse El. & Mfg. Com. & 7% Pfd	11:00	Jan. 25
Westvaco Chlorine Products	4:45	Jan. 25

All meetings on common stocks unless otherwise noted.

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